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Boston in Transition: A Financial Analysis

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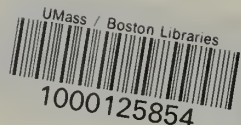
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BOSTON

IN TRANSITION: A FINANCIAL ANALYSIS





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OVERVIEW

The new Mayor of Boston must earn the confidence of the taxpaying public in his financial leadership by employing credibility and candor in the management of city affairs.

To begin the process of re-enfranchising Bostonians who have come to mistrust financial decisions seemingly determined by political calculations, the new Mayor must make an accurate disclosure of the City's financial picture, rely on the commitment of the state to properly support its capital city and restore integrity and strong management controls to government operations. Recommendations for budget cuts, hiring freezes and adjustments in tax rates, when they are necessary, should only be made when accurate information and open debate so dictate.

The Financial Analysis Research Group for the mayoral transition was assembled to provide an assessment of the City's financial posture as of January, 1984; to evaluate the financial management aspects of agency operations; to determine the effectiveness of existing budgetary planning systems; and to provide the new Mayor with a pragmatic financial management plan to support his policies and philosophy.

A New Philosophy of Financial Management: Unveiling Reserve Accounts

The greatest danger which Boston faces, like the boy who cried wolf once too often, is that the City's taxpayers, the state government, and the business and banking communities all share a skepticism about the handling of the City's finances and therefore may not rush to answer when called.

To establish credibility, the new Administration must begin with a comprehensive disclosure of the location of all "mystery money," the City's many reserve accounts, bringing to an end the practice of swelling those reserves while depleting accounts vital for the delivery of basic City services.

Municipal government finance is not a static, precise field. It simply cannot always avoid the imprecision which is revenue estimating, the "guesstimates" which are property tax abatement reserves, the annual tea leaf reading which is local aid apportionment forecasting or the uncertainty represented by federal funds subject to audit and recall. To confront these elements of guesswork, an efficient and sensible government creates pockets of available cash which may be applied to pressing needs if they arise. When these reserves are not used, however, it appears as though a sudden financial windfall has enriched government spenders who just earlier complained of being strapped for cash. While many of Boston's constituencies have been grateful for the restoration of some of the budget cutbacks of the past few years, they have grown tired of the crisis management atmosphere that has enshrouded the policy process and retarded the City's ability to plan properly or even to maintain its capital facilities.

The new Mayor cannot continue a financial policy of "hide and go seek" regarding the City's budget reserves. Those who would benefit from the political brinksmanship of questioning every financial decision of the new Administration, in view of the apparent availability of cash in "reserve," must be invited to join in the financial planning process. While necessary cash reserves must be maintained, these reserves should also be subject to the general appropriations process, not distributed at year's end as a form

of mayoral largesse. Unspent reserve accounts must be used to support that segment of Boston's population most dependent on the City as a source of last resort for provision of basic human needs. Neighborhoods too must benefit from any unspent reserves. The state government must have confidence that a new local aid package for Boston will not be requested while reserves for abatements and other unpredictable expenditures will produce year end financial windfalls.

The cornerstone of the new Administration's financial management plan should be the unveiling and spending down of all non-essential reserve accounts as a first step toward securing the additional revenues required to provide those services which Boston's government is obliged to guarantee its citizens.

CITY OF BOSTON
STATEMENT OF REVENUES AND EXPENDITURES
FISCAL YEARS 1984 AND 1985
(in 000's)

	<u>Projections</u>	
	<u>FY 1984</u>	<u>FY 1985</u>
<u>Revenues</u>		
Departmental Revenues - City	\$ 76.7	\$ 78.2
Hospital	108.1	118.9
County	7.0	7.0
Schools	<u>0.9</u>	<u>0.9</u>
TOTAL Departmental Revenues	<u>192.7</u>	<u>205.0</u>
Tax Revenues - Property	333.3	350.5
Chapter 121A	18.0	18.0
Motor Vehicle Excise	9.0	9.0
Racing	<u>0.6</u>	<u>0.6</u>
TOTAL Tax Revenues	<u>360.9</u>	<u>378.1</u>
Other Revenues - State Aid	294.7	319.7
Federal Revenue Sharing	18.8	18.5
Sale of Garages	18.5	--
Transfers	<u>53.6</u>	<u>20.6</u>
TOTAL Other Revenues	<u>385.6</u>	<u>358.8</u>
TOTAL REVENUES	<u>\$939.2</u>	<u>\$941.9</u>
<u>Expenditures</u>		
Operating Expenditures	\$670.8	\$704.1
State Charges	47.8	48.9
Debt Service	73.4	76.3
Pensions	102.5	112.7
Tax Titles	2.2	2.2
Overlay Deficit	5.6	--
Current Overlay	20.8	17.5
Prior Year Deficit	15.9	20.6
Prior Year Revenue Shortfall	<u>20.8</u>	<u>--</u>
TOTAL EXPENDITURES	<u>\$959.8</u>	<u>\$982.3</u>
<u>PROJECTED DEFICIT</u>	<u>\$(20.6)</u>	<u>(40.4)</u>

Revenues and Expenditures: A Recap of Projections for
Fiscal Year 1984 and Fiscal Year 1985

As the accompanying statements of revenues and expenditures for fiscal year 1984 and fiscal year 1985 detail, the Financial Analysis Research Group anticipates that even with the implementation of strict cost controls, the City will end fiscal year 1984 with a deficit of \$20.6 million and conclude fiscal year 1985 with a deficit of \$40.4 million.

Certain assumptions explain why these calculations may differ from the plethora of estimates of budget deficits published recently. The fiscal year 1984 estimate reflects:

- o The sale of garages totalling \$18.5 million; and
- o Operating expenditures which incorporate agency deficiencies of \$8.0 million.

The fiscal year 1985 statement assumes:

- o Receipt by the City of \$25 million of new local aid in excess of fiscal year 1984 allocations;
- o Settlement of all collective bargaining contracts with an annual salary adjustment of 5%;
- o An increase in pension payments of 10%;
- o No additional sales of capital assets of the City;
- o A 5% growth factor for all agency operations; and
- o Application of 100% of the available unliquidated cash reserves to reduce the year end deficit.

NOTE: THERE WILL BE NO FURTHER RESERVES AVAILABLE AT THE START OF FISCAL YEAR 1986 TO OFFSET THE EXPECTED \$40.4 MILLION DEFICI-

CIT. THEREFORE, A PACKAGE OF MANAGEMENT EXPENDITURE CONTROLS, ADDITIONAL STATE AID AND NEW SOURCES OF REVENUE WILL BE REQUIRED TO AVERT A SIGNIFICANT FISCAL DILEMMA AT THE START OF FISCAL YEAR 1986.

The risk involved with the disclosure and subsequent elimination of existing non-essential reserves is substantial if a consensus cannot be reached regarding the components of new state aid and new City revenues well in advance of the onset of fiscal year 1986.

The following combination of new resources could be used to offset the anticipated deficit of \$40.4 million for fiscal year 1985. It must be stressed, however, that a revenue package in excess of that described will need to be assembled if the City is to operate throughout the following fiscal year 1986 without substantial reductions in force and dramatic service cutbacks.

At a minimum, the new Administration should consider a revenue package which considers:

\$15 million	Adjustment of the MBTA Formula
10 million	Parking Excise Tax
6 million	Augmented Fire Service Fee
5 million	Street Opening Fees
4 million	Restructuring of Parking Fine Rates
<u>1 million</u>	Repayment by Boston Water and Sewer Commission for Administrative Services Rendered by the City
<u>\$41 million</u>	TOTAL

Expenditure Controls

Neither the General Court nor the City Council can be expected to assist the new Administration in its quest for new local aid and new revenues if the City Administration does not first implement a strong program of fiscal discipline to restrict agency spending.

As of December 1983, the half-way point in the fiscal year, 48 of 75 (or 64%) of the program-related agency accounts had expended more than 50% of their fiscal year 1984 appropriations. The more dramatic expenditure rates in excess of appropriations were achieved by:

- o Printing Section -- 60% (over appropriations)
- o Labor Relations -- 61%
- o Intergovernmental Relations -- 77%
- o Community Services Administration -- 74%
- o Parking Clerk -- 78%
- o Department of Public Works -- 62%
- o Public Facilities Department -- 64%
- o Community Schools -- 70%
- o Parks and Recreation Department -- 59%

The preceding Administration deserves credit for instituting management accounting systems, job performance criteria and budgetary management techniques. However, the pattern of excessive spending by agencies during the first half of fiscal year 1984 clearly indicates that the new Administration must promptly implement expenditure controls designed to dramatically slow spending during the latter half of fiscal year 1984 and to establish reasonable patterns for agency expenditures for fiscal year 1985 lest the projected deficits balloon to unmanageable proportions.

Boston's existing workforce of 21,000 employees requires wages and fringe benefits equalling almost 75% of the City's operating budget. In general, when government leaders do not address the issue of expenditure controls effectively, layoffs are not far behind.

Furthermore, if limiting the looming fiscal year 1985 deficit was not reason enough to institute meaningful expenditure controls, the need to prepare for the dramatically increasing burdens of the City's \$1.3 billion unfunded pension liability should cause great concern. With

the City responsible for 90% of the annual cost of the funding required for the pension system, long-term financial planning must begin now to successfully manage what likely will be, by the end of the next decade, Boston's most dramatic and awesome fiscal concern.

An effective plan to restrict agency expenditures has to be complemented by the introduction of a meaningful budgetary system. The new Administration should consider the implementation of two-tier budgeting, a fiscal planning innovation discussed later in this report, which can more clearly show decision makers the choices between essential services and discretionary spending.

A successful modern municipal government cannot be run by using Neanderthal budgeting practices like hiring freezes and across-the-board cuts. Arbitrary budgeting guidelines, implemented without regard for the specific missions and clients of individual City agencies, are guaranteed to be ineffectual whether as tools of financial management or of political leadership.

At a bare minimum, the new Administration should promptly review the 375 recommendations contained in the City's 1979 audit and subsequent audits. Many of the recommendations thus far ignored would help both to contain operating costs and to improve the City's financial management image.

Cash Flow: A Pending Problem

The budget deficits projected in this report are manageable if spending controls are implemented, new revenue sources are developed and, most importantly, if there is

sufficient cash available to meet the City's weekly payroll and other expenditure requirements. As the cash flow discussion later in this report documents, however, the City's current cash position is tenuous at best.

Major managerial and political consequences result from the City's cash flow position. The new Administration should attempt to anticipate potential difficulties and make suitable arrangements, as soon as possible, to ensure the continuation of efficient, uninterrupted services to the City's residents.

While the details provided indicate that the City's cash flow projections for the third quarter of fiscal year 1984 have improved somewhat since the November 1983 estimates, the projections for March 1984 show that the City will remain perilously close to being unable to meet its average weekly expenditure obligations of \$23 million if appropriate remedial steps are not taken quickly by the new Administration.

A major consequence of a poor cash position is the concomitant wane in investor interest resulting from an image of poor cash management. If Boston is to successfully enter the capital markets this spring to borrow money for capital projects, including \$10-\$15 million for neighborhood initiatives proposed by the new Administration, investor confidence in the stable cash position and strong financial management of the City of Boston must be ensured.

Management Improvements: Capital Planning and Budgeting

As detailed in the chapter of this report on capital budgeting, Boston lacks a formal, multi-year capital

plan. Presently, capital planning and budgeting is diffuse, reactive and often based on poor data.

The new Administration must be quick to correct the trend of disinvestment in the City's capital assets that has continued far too long. Yet, the rating agencies which cautiously guard a city's entry into the capital markets will be evaluating Boston very closely this spring to see if the selection of projects to be financed is prudent. They will also want to determine if the City's project monitoring capacity has improved enough to create confidence in the City's ability to complete projects in a timely, cost-effective fashion.

Boston has assets which include 408 municipal buildings, 282 of which are not schools. The new Administration must create a capital planning and monitoring process that ensures that the limited resources available are allocated in the most effective manner and that projects of greatest social and financial significance receive funding on a priority basis.

Management Improvements: Contracts and Purchasing

A critical aspect of resource allocation is the contracting and purchasing process which currently obligates the City to commitments in excess of \$500 million. Because Boston has no central record keeping regarding contractor selection and no coordinated City policy on contracting services, this report includes a number of recommendations to enhance the new Administration's control of the vendor selection process.

It is disturbing that 39% of the 1,446 City contracts analyzed by the Financial Analysis Research Group, representing 53% of the total dollar value of all contracts analyzed, were unadvertised.

Further, lack of coordination, at the very least, has permitted more than 70% of all change orders granted on current construction contracts to be given to two businesses whose owners are related. Most of these change orders were granted shortly after the contracts had been executed -- a practice that should be monitored closely for all present and future vendors.

Review of contracts and purchasing also highlights the difficulties facing small business owners and minority owned businesses seeking to compete for municipal opportunities. First, the job of learning enough about the City's contracting process to become a plausible competitor is so daunting that it becomes a substantial barrier to some who wish to join the bidding. Second, the City is so lax in paying its vendors that firms must be large enough to advance their own cash for months at a time.

A commitment by the new Administration to streamline the payment process and to open the bidding to more vendors would likely produce significant savings to the City.

Management Improvements: Management Information Systems

Poor contracting procedures carry over into the \$15 million area of management information systems. Budget overruns in excess of 500% have been found for some MIS projects. In one case, the City's main computer, purchased in 1982, was running at only 50% of capacity when, in 1983, it

was abandoned for a newer model four times more powerful. A user group of sufficient size has yet to appear.

The new Administration must focus on the MIS area immediately if it is to gain effective control of current management systems, however limited, and restrict unnecessary agency spending during the remainder of fiscal year 1984.

If a consistent theme appears throughout the chapters which follow, it is that City Hall does not have reliable, comprehensive data collection for many of its most important line agencies. If effective expenditure controls are to be put in place, an improved MIS structure will be a prerequisite.

Management Improvements: Department of Health and Hospitals

The chapter on the Department of Health and Hospitals depicts the cost to one major City agency of ineffective capital planning, poor contracting and purchasing procedures, and inappropriate management information systems.

Occupancy at Boston City Hospital has fallen from 80% in fiscal year 1980 to 69% during the first half of fiscal year 1984. As a health care system of last resort, the Department of Health and Hospitals, in particular, needs to improve productivity and performance standards so that more of the City's disadvantaged citizens can receive proper care at a cost which is neither prohibitive nor the cause of constant calls for budgetary cutbacks. The cost of providing care for those in greatest need cannot become totally prohibitive.

This summary of observations from four of the management improvement chapters in this report fails to convey the frustration with miles of bureaucratic red tape that was experienced by the 60-person Financial Analysis Research Group and which even more often frustrates taxpayers doing business with the City. It does not speak well for the City that it takes a 27-step process to hire one employee, that the City has no inventory control over the parking tickets that it issues, that our research group was unable to determine the actual place of work for many of the City's 21,000 employees, that the City's human service agencies lack a data collection system that can determine which Boston residents are the recipients of basic social services, or that the City Assessor's Office, which faces a major citywide revaluation during fiscal year 1985, presently lacks the technical capacity to conduct the effort.

The encouraging news is that the problems can be solved. Although in many cases, the mere substitution of leadership for past policies of benign neglect may be sufficient to make important inroads, to produce significant cost savings and to maximize all available resources, the new Administration must initiate certain systemic reforms.

Implementation

This report includes some 150 recommendations for improving the quality of City services and reducing the cost of municipal government.

In particular, however, the new Administration should consider the following overall proposals.

1. Establish Two-Tier Budgeting to protect essential City services from exposure

to a politicized process that invariably pits public safety services against discretionary "wish lists".

2. Provide Accurate Revenue Estimates to the City Council prior to the annual budget debate so that there can be agreement between the Mayor and the Council as to resources available for appropriation, thereby reducing the pattern of constant charges and countercharges and constant budget deficits.
3. Create an Internal Audit Division in the Mayor's Office to reduce the inequities, waste and abuse in the City's \$500 million of contracts and purchases.
4. Implement Job Performance Criteria already established by the preceding Administration to improve the efficiency of the government at its present size, eliminate unnecessary positions, and prevent unchecked spending by those City agencies so inclined.
5. Realign the Personnel System so that salaries more reasonably reflect job responsibilities.
6. Create an Office of Capital Planning and Project Monitoring to begin the task of coordinating the multi-agency capital budgeting process; and to reduce the duplication of personnel, red tape and inefficiency which characterize the present-day capital planning cycle and which will hamper implementation of a \$10-\$15 million neighborhood capital improvement program this spring.
7. Disclose All Reserve Accounts and utilize discretionary reserve funds for essential City services.
8. Secure Additional Revenues to ensure that the delivery of essential municipal services to the residents of Boston not be jeopardized by the uncertainties of the financial management process.

ACKNOWLEDGMENTS

The sixty-person Financial Analysis Research Group appreciates having had the opportunity to participate in the energizing and creative process that has been the transition for Mayor Raymond L. Flynn. The Mayor's personal commitment and enthusiasm for a thorough assessment of the government structure and his encouragement throughout this six week process provided the motivating force which made this effort possible.

Equally committed to a meaningful transition was Mayor Kevin H. White. The willingness of Mayor White, Deputy Mayors Micho Spring and Lowell Richards, Budget Director Dennis Morgan and Auditor Newell Cook and their respective staffs to offer candid and helpful insights into the policies and practices of their stewardship of City Hall is gratefully acknowledged.

The Boston Municipal Research Bureau provided guidance whenever requested through the bureaucratic maze that is our city government. The Bureau's help was invaluable.

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The Boston Foundation made the printing of this document possible. More importantly, the organization's commitment to the broad-based dissemination of the document enabled every library and major institution in Boston to receive a copy.

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As with any effort which attempts to realize the goals of a broad mandate under the pressures of a limited time schedule, this report undoubtedly contains some inaccuracies and inequities for which its sixty authors apologize and bear responsibility.

For the Financial Analysis Research Group,

MARK S. FERBER,
Chairman

January 17, 1984

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GLOSSARY

The following has been developed as both a general reference in the area of municipal finance and as a specific resource for this Report. It was compiled by substantially merging glossaries prepared for: 1) the Massachusetts Municipal Data Base, Bank of Boston, 1982 Debt Survey of Massachusetts Cities and Towns; 2) Public Securities Association, Fundamentals of Municipal Bonds (1981); 3) Massachusetts Senate Ways and Means Committee Budget Document, 1983; 4) Coopers and Lybrand Report (Boston): Audited Financial Statements for the Years Ended June 30, 1981, and June 30, 1982; 5) Massachusetts Municipal Association, Manual for Municipal Budget Analysis; 6) Local Government Finance: Capital Facilities Planning and Debt Administration, A.W. Steiss, Lexington Books (1975); and 7) Governmental Accounting, Auditing, and Financial Reporting (1980), Municipal Finance Officers Association of the United States and Canada.

Abatement. A complete or partial cancellation of a levy imposed by a government. Abatements usually apply to tax levies, special assessments, and service charges. Senior citizens, veterans, and low-income persons may also be eligible for abatements of their property tax.

Accounting System. The total structure of records and procedures which discover, record, classify, summarize, and report information on the financial position and results of operations of a government or any of its funds, fund types, balanced account groups, or organizational components.

Accrual Basis. The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

Accrued Expenses. Expenses incurred but not due until a later date.

Accrued Interest. Interest earned on a security since the later of the last interest payment date or the dated date.

Activity. A specific and distinguishable line of work performed by one or more organizational components of a government for the purpose of accomplishing a function for which the government is responsible. For example, "food inspection" is an activity performed in the discharge of the "health" function.

Activity Account Code. An eight-digit number by which a line-item is designated. The first one or two digits of the code identify the line-item's location in the budget. The second or third through eighth digits indicate the nature of the line item.

Actuarial Basis. A basis used in computing the amount of contributions to be made periodically to a fund or account so that the total contributions plus the compounded earnings thereon will equal the required payments to be made out of the fund. The factors taken into account in arriving at the amount of these contributions include the length of time over which each contribution is to be held and the rate of return compounded on such contribution over its life. A Pension Trust Fund for a public employee retirement system is an example of a fund concerned with actuarial basis data.

Ad Valorem Tax. A tax based on the assessed value of real (land and improvements) and personal property.

Allotment. A part of an appropriation which may be encumbered or expended during an allotment period. Spending is controlled by the Governor even after the Legislature makes appropriations. Each fiscal year is divided into periods, and before the beginning of each period, each agency head is told how much of his appropriation he may spend during that period. The amount in any one period is the allotment.

Allotment Period. The period during which an allotment may be encumbered or expended.

Amortization (of bonds). A straight-line reduction of debt by means of periodic payments sufficient to meet current interest and to liquidate the debt (pay down the principal) at maturity.

Appropriation. A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes. An appropriation is usually limited in amount and as to the time when it may be expended.

Appropriation Account. A budgetary account set up to record specific authorizations to spend. The account is credited with original and any supplemental appropriations and is charged with expenditures and encumbrances.

Assessed Valuation. A valuation set upon real estate or other property by the town or city as a basis for levying taxes; the assessed valuation is not the same as the market value of a property.

Assessment Ratio. The ratio of the assessed value of property to the full or true property value; full value may be defined as fair market value at the bid side of the market less a reasonable allowance for sales and other expenses.

Audit. A methodical examination of utilization of resources. It concludes in a written report of its findings. An audit is a test of management's accounting system to determine the extent to which internal accounting controls are both available and being used.

Audit Report. The report prepared by an auditor covering the audit or investigation made by him. As a rule, the report should include: a) a statement of the scope of the audit; b) explanatory comments (if any) concerning exceptions by the auditor as to application of generally accepted auditing standards; c) opinions; d) explanatory comments (if any) concerning verification procedures; e) financial statements and schedules; f) sometimes statistical tables, supplementary comments, and recommendations. The auditor's signature follows item (c) or (d).

Auditor's Opinion. A statement signed by an auditor in which he states that he has examined the financial statements in accordance with generally accepted auditing standards (with exceptions, if any) and in which he expresses an opinion on the financial position and results of operations of some or all of the constituent funds and balanced account groups of the government as appropriate.

Augmented Fire Services Availability Fee. Fee authorized by the 1982 Funding Loan Act and imposed on certain structures by virtue of the increased burden they place on the Fire Department.

Authority. A quasi-public corporation created by one or more governmental bodies to carry out certain functions, either within a community or among several communities. These are often a "proprietary," revenue-producing nature, such as providing a water supply, sewage treatment facilities, or building and maintaining roads, bridges, or ports and air terminals, for which tolls, rents or other user charges may be imposed.

- Authorization. The legal permission granted by the Council to the Treasurer to sell notes or bonds that are guaranteed by the City's ability to levy taxes.
- Authorized Position. An activity's legislatively authorized positions, or jobs, represent the activity's maximum allowable work force.
- Balance Sheet. The basis financial statement which disclosed the assets, liabilities, and equities of an equity at a specified date in conformity with GAAP.
- Base Budget. A budget which describes the funding required to maintain existing levels of service or activity. In an inflationary period, a base budget necessarily will exceed the previous fiscal year's budget, while a so-called level-funded budget will entail an actual reduction in funding.
- Basis Book. A book of mathematical tables used to convert yield percentages to equivalent dollar prices.
- Basis Point. Yields on municipal securities are usually quoted in increments of basis points. One basis point is equal to 1/100 of 1 percent.
- Basis Price. The price expressed in yield or net return on the investment.
- Batch Processing. A computer system method of handling data, with an accumulation of transactions processed all in one "batch."
- Bearer Security. A security that has no identification as to owner. It is presumed to be owned, therefore by the bearer or the person who holds it. Bearer securities are freely and easily negotiable since ownership can be quickly transferred from seller to buyer.
- Beginning Balance. The preceding fiscal year's end of year surplus or deficit carried over to the current fiscal year.
- Betterments. An addition made to, or change made in, a fixed asset which is expected to prolong its life or to increase its efficiency. The term is also applied to sidewalks, sewers and highways; "improvements" could be another designation.

Block Grant. A federal grant to a governmental unit to be used at the recipient's discretion for a variety of activities within a broadly defined program area.

Bond. An interest-bearing certificate issued promising to pay the holder a specified amount on a specific date.

Bond Anticipation Note (BAN). Short-term notes sold in anticipation of a bond issue and retired by proceeds from the sale of the bonds. BANs are issued by states and municipalities to obtain interim financing for projects that will eventually be funded long term through the sale of a bond issue.

Bond Bank. Institutions established in a few states to buy entire issues of bonds of municipalities, financed by the issuance of bonds by the bond bank.

Bond Funds. Registered investment companies whose assets are invested in diversified portfolios of bonds.

Bond Issue. Generally a certain number of bonds marketed at one time by a municipality, school district, or other public organization.

Bonds - General Obligation. See General Obligation Bonds.

Bonds - Revenue. Bonds payable from revenues derived from the use of a facility, such as bridge tools, water rents, and the like; the credit and taxing capability of local government is not necessarily pledged in support of such bonds.

Budget. A plan of financial operation embodying an estimate of proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year. The term "budget", is used in two senses in practice. Sometimes it designates the financial plan presented to the appropriating body for adoption and sometimes the plan finally approved by that body. It is usually necessary to specify whether the budget under consideration is preliminary and tentative or whether it has been approved by the appropriating body.

Budget Amendment. This must be filed for all changes in the numbers, titles, salaries, etc., of positions originally budgeted.

Budget Document. The instrument used by the budget-making authority to present a comprehensive financial program to the appropriating body. The budget document usually consists of three parts. The first part contains a message from the budget-making authority, together with a summary of the proposed expenditures and the means of financing them. The second consists of schedules supporting the summary. These schedules show in detail the information as to past years' actual revenues, expenditures, and other data used in making the estimates. The third part is composed of drafts of the appropriation, revenue, and borrowing measures necessary to put the budget into effect.

Callable. Feature of a bond whereby it may be redeemed by the issuer prior to maturity under terms designated prior to issuance.

Capital Budget. Plan of proposed outlays for acquiring long-term assets and the means for financing those acquisitions; see also Operating Budget.

Capital Expenditures or Outlays. Nonrecurring payments for capital improvements including construction, acquisition, site development and overhead costs. The fees for architects, engineers, lawyers, and other professional services plus the costs of financing, advance planning may be included.

Capital Plant. Buildings and other facilities needed for the operation of public services provided by local government including schools, roads, water and sewer systems, street lights, parks and playgrounds, harbor improvements, police and fire department headquarters, administration buildings, libraries, and health centers.

Capital Projects Fund. Transactions related to resources obtained and used for the acquisition, construction or improvement of capital facilities are accounted for in the Capital Projects Fund. Such resources are derived principally from proceeds of general obligation bond issues and from federal and state grants.

Capital Reserve Deposits or Capital Improvements Fund Deposits. Deposits by a municipality, county or school district or current revenues in a special fund called a "building fund," "capital reserve fund," or "capital improvement fund," which may be used for payments for capital improvements or debt service.

Capitalization. The translation of an annual revenue or expenditure into terms of capital value or capital cost, on the basis of a fixed ratio.

Carry Forwards. These are appropriations whose year end balances are deducted from the original year's appropriation balance, and added to the appropriation of the following year.

Cash Flow. The amount and timing of the City's payments to employees and vendors.

Cash Match. Many federal funds are granted on the condition that the state pay some of the costs of the funded activity or program.

Categorical Grant. A federal grant, the use of which is limited by the federal government to a single purpose.

Centralized Account. A single line-item which funds otherwise decentralized activities.

Chargebacks. The chargeback system is a method of assessing departments for costs incurred by them which are billed centrally. Telephone bills, workmen's and unemployment compensation are examples of items handled by the chargeback method.

Cherry Sheet. This is a cherry-colored form showing all State and County charges and reimbursements to the town or city as certified by the Director of the Bureau of Accounts.

Classified Employee. An employee who is paid and promoted according to an explicit civil service job classification, as prescribed by MGLA Chapter 31, the state's civil service law.

Competitive Underwriting. A sale of municipal securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. This is contrasted with a negotiated underwriting.

Concession. The allowance (or profit) that an underwriter allows a nonmember of the account; sometimes referred to as dealer's allowance.

Consolidated Account. An account structure whereby several individual line-items within one agency are consolidated into one line-item.

Consolidated Revenue Statement. An accounting of all the revenues from all funds for a given fiscal year, their source, and their level.

Contingent Debt. Bonds which have not been sold by the Commonwealth, but which it nevertheless might have to repay in the event of default by the bond seller. Contingent debt differs from guaranteed debt in that contingent debt involves a formal agreement between the Commonwealth and the bond issuer, which is generally an authority such as the MBTA.

Contingent Liabilities. Items which may become liabilities as a result of conditions undetermined at a given date, such as guarantees, pending law suits, judgments under appeal, unsettled disputed claims, unfilled purchase orders, and uncompleted contracts. All contingent liabilities should be disclosed within the basic financial statements, including the notes thereto.

Coupon or Interest Rate. The annual rate of interest payable on a bond, note, or any other fixed income obligation, usually expressed as a percentage of the principal amount, which the borrower promises to pay to the bondholder.

Coverage. This is a term usually connected with revenue bonds. It indicates the margin of safety for payment of debt service, reflecting the number of times by which earnings for a period of time exceed debt service payable in such period.

Current Yield. The ratio of interest to the actual market price of the bond stated as a percentage. For example, a \$1,000 bond that pays \$80 per year in interest would have a current yield of 8%.

Debt Financing. The financing of the cost of capital improvements by the creation of debt (usually done by the issuing of bonds).

Debt Limit. The statutory or constitutional maximum debt that an issuer can legally incur, usually expressed as a percentage of the net debt to the "equalized valuation basis".

Debt Outstanding. The Commonwealth's debt outstanding is the general obligation bonds which have been sold to cover the costs of the state's capital outlay expenditures from the state's bond funds.

Debt Schedule. A schedule showing annual payments for interest, principal, sinking funds, and other deposits to be used toward the payment of principal maturities.

Debt Service. The annual cost of having debt (bonds) outstanding. This cost includes both the interest payments on bonds as well as the cost of retiring the bonds.

Debt Service Fund. A fund established to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Deed Excise Receipts. Excise tax imposed by state law upon the recording of deeds, instruments, and writings filed with the Suffolk County Registry of Deeds after August 1, 1982.

Default. Failure to pay principal or interest promptly when due if caused by a minor omission that if remedied promptly is known as a technical default.

Department Revenues. A variety of non-tax revenues collected by agencies. Departmental revenues include reimbursements for services, fees, fines, penalties, interest, permits, licenses, sales, and rentals.

Departmental Receipts. This category consists primarily of receipts from fees charged by various departments. Also included are revenues from interests on the City's investments. Monthly collection rates reflect historical collection experience.

Differentiated Fee. The opposite of a flat fee. A differentiated fee varies according to the service received by an individual or to the individual's ability to pay.

Discount. The amount by which the purchase price of a security is less than the principal amount or par value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Bonds. Fixed income securities which are issued when interest rates are low and sell at a discount below par when the coupon rate they bear falls below prevailing market rates, resulting in significant capital gains advantage to individual investors.

Dollar Bond. A bond that is quoted and traded in dollar prices rather than in terms of yield.

Double Exemption. Securities that are exempt from state as well as federal income taxes.

Down Payment. Payment for a capital improvement from current revenues or reserves, as opposed to borrowed funds.

Earmarked Funds. Revenues designated by statute or constitution for specific purposes.

Employee Benefits. Amounts paid on behalf of employees but are not included in the gross salary. Examples are: 1) group health or life insurance payments; 2) contributions to employee retirement; 3) OASDI (Social Security) taxes; 4) workmen's compensation payments; 5) unemployment insurance payments; and 6) payments made to personnel on sabbatical leave.

Encumbrance. An encumbrance represents a charge made against a department; or, the funds taken from appropriation and set aside to pay a specific liability. The process by which the Auditor records orders and contracts against appropriations is called encumbering. As long as an item remains unpaid, it is an unliquidated encumbrance. Once a check is drawn, the encumbrance is fully or partially liquidated. The portion represented by the check is an expenditure. Not all charges to departments are encumbrances. Payrolls and some utility bills, for example, are not encumbered.

Enterprise Debt. Bonded debt issued to finance the construction of facilities that are generally self-supporting from user charges. Facilities financed with enterprise debt include water and sewer systems, airports and utility systems. Enterprise debt is a general obligation of the issuing municipality.

Entitlement. The amount of payment to which a state or local government is entitled as determined by the federal government.

Equalized Valuation. See Valuation.

Estimated Net Debt Retirement Schedule. The Net Debt Retirement Schedule is an estimate of the outstanding debt principal projected to be paid off in one year, five years, ten years, etc.

Excess and Deficiency Account. This is the account where all the surpluses and deficits wind up. When the City's accumulated revenue surplus exceeds the amount of uncollected taxes, "free cash" results.

Expenditure Account Code. A ten-digit number made up of an eight-digit activity account code followed by a two-digit subsidiary account number which is used to identify precisely the purpose for which an activity's funds are spent.

Expenditure Budget. The budget which provides for expenditures to cover agency costs and non-agency costs for the fiscal year, as opposed to the capital outlay budget.

Expenditures. Expenditures include current operating expenses which require the current or future use of net current assets, debt service, and capital outlays.

Face Amount. The par value (i.e., principal or maturity value) of a security appearing on the face of the instrument.

Face Value. The par value of a bond that appears on the face; this is the amount that the issuer promises to pay at maturity, and also the amount on which interest is computed.

Federal Grants-In-Aid. A system of federal assistance to state and local governments comprising three general kinds of grants: categorical grants, block grants, and general revenue sharing.

Fiscal Year (FY). The twelve-month financial period used by local government which begins July 1 and ends June 30 of the following calendar year. The year is represented by the date on which it ends. Example: July 1, 1976 to June 30, 1977 would be FY 1977.

Fixed Assets. Assets of a long-term character which are intended to continue to be held or used, such as land, buildings, improvements other than buildings, machinery and equipment.

Flat Fee. The opposite of a differentiated fee, a flat fee does not vary according to the service received by an individual or to the individual's ability to pay.

- Flat Scale. Little or no difference between short- and long-term yields over the maturity range of an issue.
- Floating Debt. Temporary or shifting short-term debt that has not been funded on a permanent basis into longer maturities.
- Formula Grant. A federal grant for which funds are allocated according to legislatively or administratively specified factors.
- Funded Pensions. Retirement system which sets aside contributions from the participant and employer at a level equal to the future cost when the participant becomes eligible for benefits. At that time the system returns the contributions and any interest their investment may have generated.
- General Debt. Bonded debt issued by municipalities for various capital purposes, but excluding enterprise debt as defined below. It is a general obligation of the issuing municipality, payable from property taxes and other available revenues.
- General Fund. The fund into which the general (non-earmarked) revenues of the municipality are deposited and from which money is appropriated to pay the general expenses of the municipality.
- General Obligation Bond. A bond secured by the pledge of the issuer's full faith, credit and, usually, taxing power.
- General Revenue Sharing. Program in which a sum of federal government funds raised through federal income taxes is returned to local cities and towns for use as the local government chooses. The amount is based on a formula taking into account such variables as population, tax base, and income.
- Generally Accepted Accounting Principles (GAAP). Uniform minimum standards of and guidelines to financial accounting and reporting. They govern the form and content of the basic financial statements of an entity. GAAP encompass the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative statement on

the application of GAAP to state and local governments is NCGA Statement 1. Every government should prepare and publish financial statements in conformity with GAAP. The objectives of governmental GAAP financial reports are different from, and much broader than, the objectives of business enterprise GAAP financial reports.

Grants-in-Aid. Outright donations or contributions, usually by a higher governmental unit, without the prior establishment of conditions with which the recipient must comply.

Grievance Arbitration. The process of resolving disputes over the terms, application or alleged violation of an existing collective bargaining agreement by the decision of a neutral third party.

Gross Yield. The percentage return on a security that is determined by dividing the dollar price into the annual interest payment and calculating the return to maturity.

Guaranteed Debt. Bonds which are issued by an authority, typically a local housing authority or a higher education building authority, but which ultimately are guaranteed by the state.

Health and Hospitals' Enterprise Fund. Transactions related to the operation of Boston City, Mattapan and Long Island Hospitals and the Community Health Services Division are accounted for in the Health and Hospitals' Enterprise Fund. Boston City Hospital, a teaching hospital affiliated with Boston University Medical School, provides a full range of inpatient and outpatient services. The other hospitals principally provide services to persons with chronic diseases. The Community Health Services Division conducts or provides financial support for neighborhood outpatient health clinics, public health nursing, drug programs, health services for children, and a variety of other community and public health service programs.

Impasse. A breakdown in the progress of negotiations between employer and employee representatives over the terms of a prospective bargaining agreement.

In Lieu of Taxes. Income to replace the loss of tax revenue resulting from property exempted from taxation.

Industrial Revenue Bond. A security issued by a state, certain agencies or authorities, a local government or development corporation to finance the construction or purchase of industrial plants and/or equipment to be used by a private corporation; and backed by the credit of the private corporation rather than the credit of the issuer.

Interest Arbitration. The process of resolving a collective bargaining impasse by the decision of a neutral third party.

Interest Rate. The interest payable each year, expressed as a percentage of the principal.

Intergovernmental Revenue. Revenue received from other governments, such as fiscal aids, shared taxes, and reimbursements for services.

Interim Financial Statement. A financial statement prepared before the end of the current fiscal year and covering only financial transactions during the current year to date.

Internal Audit. An independent appraisal activity within an organization for the review of the operations as a service to management. It is a managerial control which functions by measuring and evaluating the effectiveness of other controls.

Internal Control. A plan of organization under which employees' duties are so arranged and records and procedures so designed as to make it possible to exercise effective accounting control over assets, liabilities, revenues and expenditures. Under such a system, the work of employees is subdivided so that no single employee performs a complete cycle of operations. Thus, for example, an employee handling cash would not post the accounts receivable records. Moreover, under such a system, the procedures to be followed are definitely laid down and require proper authorizations by designated officials for all actions to be taken.

Inside Debt Limit. General debt limit imposed on the City up to which City may authorize debt without state approval.

Inverted Scale. When the yield is higher on the shorter maturities than on the longer ones.

Issuer. A municipal unit that borrows money through the sale of bonds.

Judgment. An amount to be paid or collected by a government as the result of a court decision.

Level Funding. Providing a line-item with a current dollar appropriation identical to the prior fiscal year's appropriation.

Limited Tax Bond. A bond secured by the pledge of a special tax, a group of taxes, or specified portion of the real estate tax that is limited as to a rate or amount.

Line-Item. A separately identified unit of appropriation.

Line-Item Budget. A budget which focuses on inputs or categories of spending such as supplies, equipment, maintenance, or salaries. Contrast with program budget.

Liquidate. To use a portion of the encumbered appropriation to make a payment to a contractor.

Liquidity. The ability to convert a security into cash promptly with minimum risk of principal.

Marketability. A measure of the ease with which a security can be sold in the secondary market.

Maturity. The date when the principal amount of a security becomes due and payable.

Moral Obligation Bond. A type of municipal security that is not backed by the full faith and credit of a state, but state law provides that the state will replenish the issue's debt service reserve fund if necessary.

Negotiated Underwriting. In a negotiated underwriting the issuer of municipal securities chooses one underwriter or a group of underwriters to sell its bonds to investors. There is no competitive bid for the issue.

Net Debt. Gross debt less sinking fund accumulations and all self-supporting debt.

Net Interest Cost. The traditional method of calculating bids for new issues of municipal securities. The other method is known as the True Interest Cost.

Non-Callable Bond. A bond that cannot be called either for redemption by or at the option of the issuer before its specified maturity date.

Non-Revenue Disbursements. This account is used to record expenditures made by the General Fund for capital construction projects.

Non-Tax Revenues. These include departmental revenues and federal reimbursements.

Notes. Short-term promises to pay specified amounts of money, secured by specific sources of future revenues, such as taxes, federal and state aid payments, and bond proceeds.

On-Line System. A data processing system which allows may users direct, immediate access to information stored by a computer and to its data processing capabilities.

Operating Budget. Plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year.

Over-the-Counter Market (OTC). A securities market that is conducted among dealers throughout the country through negotiation rather than through the use of an auction system as represented by a stock exchange.

Overlapping Debt. The debt of other governmental entities which is chargeable to cities and towns and payable from city and town property taxes and other revenues. It includes the debt of counties, the Massachusetts Bay Transportation Authority (MBTA), and other regional transportation authorities, the Metropolitan District Commission (MDC), and other special districts organized for purposes such as pollution abatement, solid waste disposal, fire protection, etc.

Overlay. The amount raised by the assessors in excess of appropriations and other charges for the purpose of creating a fund to cover abatements and to avoid fractions.

Overlay Reserve. The accumulated amount of overlay for previous years which has not been used and which is not required to be held in a specific overlay account for a given year. It may be used for extraordinary or unforeseen purposes or made part of the reserve fund.

PL 874 Funds. Funds received by school districts from the federal government because of the "impact" on the district of federally-connected school children whose parents either live on or work on federal property, or both.

Par Value. The stated or face value of a bond; the amount of money due at maturity.

Pay-As-You Go Financing of Pensions. Operating a pension system in which benefits are paid from current appropriations rather than reserves created during an employee's active service.

Paying Agent. Place where principal and interest are payable. Usually a designated bank or the office of the treasurer of the issuer.

Post-Audit. An audit done on an after-the-fact basis, generally encompassing both revenues and expenditures.

Pre-Audit. An audit done on a before-the-fact basis, generally encompassing only proposed expenditures.

Premium. The amount by which price exceeds par amount or maturity value of a bond; also the amount payable to the holder of a callable bond by the issuer, if and when the bond is called.

Primary Market (new issue market). Market for new issues of municipal bonds and notes.

Prime Rate. Interest Rate charged by banks for loans to their prime or most creditworthy customers.

Principal. The face or par value amount of a bond, exclusive of accrued interest and payable at maturity.

Privilege Excise. A tax primarily on certain kinds of businesses for the privilege of doing business in Massachusetts.

Program Budget. A budget which relates financial costs to the program it funds; the emphasis of a program budget is on output.

Proposition 2 1/2. A state wide tax limitation initiative petition limiting the property tax levy in cities and towns in the Commonwealth to 2 1/2% of the full and fair cash valuation of the taxable real estate and personal property in that city or town.

Qualified Bonds. Bonds which are issued subject to conditions and limitations as they may be specified by the state Emergency Finance Board. The state pays debt service on the bonds, which is then deducted from state aid or other state payments to the City.

Ratings. Designations used by investors' services to give relative indications of quality.

Real Estate Excise Receipts. Excise tax imposed by state law upon the construction, conversion of condominium units or subdivision or consolidation of lots.

Reciprocal Immunity Doctrine. The doctrine that many legal experts believe provides the constitutional basis for the exemption from federal taxation of the interest earned on municipal securities. The doctrine holds that the states are immune from federal interference in their affairs, just as the federal government is immune from state interference.

Refunding. A system by which a bond issue is redeemed by a new bond issue under conditions generally more favorable to the issuer.

Registered Bond. A bond whose owner is registered with the issuer or its agents, either as to both principal and interest or as to principal only. Transfer of ownership can be accomplished only when the securities are properly endorsed by the registered owner.

Reimbursement Grant. A federal or state grant that is paid to the City once the project is complete and inspected as to conformance to the grant contract. The City must provide the full funding for the project until the reimbursement is received.

Reimbursements for Non-Revenue Expenditures. This account is used to report reimbursements to the General Fund for expenditures made on account of capital projects.

Reserve Fund. A fund which transfers may be made for extraordinary or unforeseen expenditures. It may be composed of an appropriation of not more than 5% of the tax levy for the preceding year, or money transferred from the overlay reserve, or both.

Reserve for Encumbrances (Unliquidated Reserve). These are funds set aside at the end of a fiscal year to cover encumbrances and items such as utility bills which have not yet been paid by June 30. Items put

into this reserve are charged to the department, whether they are paid or not.

Revenue Anticipation Notes. Notes issued in anticipation of future tax revenues and federal or state aid.

Revenue Bond. A bond payable from revenues secured from a project that pays its way by charging rentals to the users, such as toll bridges or toll highways, or from revenues from another source that are used for a public purpose.

Revenue Deficit. Shortfall of the prior year's non-property tax revenues in comparison to anticipated amounts on which the prior levy was based.

Revolving Account. Budgetary account which allows an agency to retain a portion of revenues produced from its operations to defray costs for material, equipment, or salaries.

Right of Redemption. The right of an owner to redeem title to property taken by the City for taxes within a certain period of time after foreclosure.

Scale. Reoffering terms to the public of a serial issue showing price or yields offered to each maturity.

Secondary Market. Market for issues previously offered or sold.

Self-Supporting Debt. Debt incurred for a project or enterprise requiring no tax support other than the specific tax or revenue earmarked for that purpose.

Serial Bonds. Bonds maturing in periodic, generally annual, installments as opposed to "term bonds".

Short-Term Debt. Short-term debt includes Revenue Anticipation Notes, Bond Anticipation Notes, and Grants and Highway Aid Anticipation Notes.

Sinking Fund. A fund accumulated by an issuer over a period of time to be used for retirement of debt, either periodically or at one time.

Sliding Fee. A differentiated fee which varies according to the service recipient's ability to pay.

Special Revenue Funds. Transactions related to revenues and expenditures under certain federal and state grants and from other sources, upon which restrictions are imposed, are accounted for in Special Revenue Funds.

Spread. (1) Difference between bid and asked prices on a security. (2) Difference between yields on or prices of two securities of differing sorts or differing maturities. (3) In underwriting, difference between price realized by the issuer and price paid by the investor.

Staging. The planning or programming of the construction of capital improvements over time when needed and when the community has the ability to pay.

State-Boston Retirement Fund. This fund is a fiduciary fund type in which the transactions reflect assets, liabilities and fund equities of the City-administered pension system.

State/Boston Retirement System and Boston Retirement System. Transactions related to assets, liabilities, and fund equity of the City-administered retirement systems are reflected in the Retirement Systems -- Fiduciary Fund.

State Distributions. State aid is determined by the State Department of Revenue. The average timing of receipts for significant portions of the total is as follows: The total amount allocated to School Aid, Ch. 70, is received on a quarterly basis in the months of September, December, March and June. Reimbursements for a lump sum in September of each year. 121A, s.10, payments are received 20% in December and 80% in June. The remaining revenues are distributed over the intervening months and, for projection purposes, are based on average historical percentages of the total throughout the year.

State Mandated Program. Usually refers to a program or expenditure which is implemented by the cities and towns as required by the Legislature or Executive.

Statement of Changes in Fund Equity. The basic financial statement which reconciles the equity balances of an entity at the beginning and end of an accounting period in conformity with GAAP. It explains the relationship between the operating statement and the balance sheet. Under NCGA Statement 1, statements of changes in fund equity are combined with operating statements into "all-inclusive" operating statement formats.

Statement of Revenues and Expenditures. The basic financial statement which is the governmental fund and Expendable Trust Fund GAAP operating statement. It presents increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in an entity's net current assets.

Statutory Accounting System. Established by the Bureau of Accounts of the Massachusetts Department of Revenue. Although the City's audits are conducted in accordance with GAAP by statute the property tax levy, as well as school department accounts, are required to be conducted in accordance with the statutory accounting system.

Subsidiary Account. One of 20 categories into which line-item appropriations are divided. Line-item accounts may need funds in nearly any combination of the following subsidiary accounts: (01) salaries of permanent personnel; (02) salaries of temporary personnel and overtime; (03) payments for contracted, non-employee services; (04) food; (05) clothing; (06) housekeeping supplies and expenses; (07) laboratory and medical supplies and expenses; (08) heat and fuel; (09) farm and grounds; (10) travel and automotive; (11) advertising and printing; (12) equipment maintenance and repairs; (13) special supplies and expenses; (14) office and administrative expenses; (15) equipment purchase; (16) equipment or space rental; (17) state aid; (18) capital outlays; (19) debt service; and (20) pensions and other retirement payments.

Supplementary Budget. An appropriation submitted to the Council after the main budget has been approved.

Syndicate. A group of investment bankers who buy (underwrite) "wholesale" a new bond issue from the issuing authority and offer it for resale to the general public.

Take-Down. The discount from the list price allowed to a member of an underwriting account on any bonds sold (sometimes referred to as a take-down concession).

Tax Anticipation Notes. TANs are issued by states or municipalities to finance current operations in anticipation of future tax receipts. The total estimated tax anticipation notes are determined by the Collector-Treasurer and approved by the City Council.

Term Bond. A bond of an issue that has a single maturity.

Total Debt. The sum of net direct debt and overlapping debt.

Trading Market. The secondary market for issued bonds.

Trustee. A bank designated as the custodian of funds and official representative of bondholders.

Underwriter. A bank, dealer or other financial institution that purchases new issues of securities for resale.

Unencumbered Balance. The amount remaining, against which encumbrances still can be made. It is the current appropriation (net of transfers) less actual total expenditures, and unpaid encumbrances.

Unfunded Pension Liability. Unfunded actuarial liability is equal to the actuarial liability of active and retired members less assets.

Unissued Debt. Bonds which have been authorized for sale by the City of Boston but which in fact have not been sold.

Unlimited Tax Bond. A bond secured by pledge of taxes that may be levied in unlimited rate or amount.

Unliquidated Balance. That portion of the contract that has not actually been paid to the contractor.

Yield. The rate of annual income return on an investment, expressed as a percentage.

Zero-Based Budget (ZBB). A form of program budget which requires each program or governmental subdivision to justify not only the increase in its budget but each aspect of its budget every year.



Revenues

INTRODUCTION

Summary - Fiscal 1984

It will not be easy for Boston to achieve FY 1984 revenue estimates of \$944.5 million. The City is in its fourth and last year of mandatory reductions in the amount it may raise from its principal revenue source, the property tax, and there are no alternative taxes that can be adjusted to make up the the difference. Non-tax revenues had been increased through across-the-board adjustments only two years earlier. Gaps between revenues and expenditures had to be filled by whatever was available: the sale of valuable properties, which in themselves are revenue producers.

Now, at the half-way point through fiscal 1984, it appears that the City's revenue estimates for the year are reasonable. Undoubtedly, there will be shortfalls in some areas, but it is also likely that there will be offsetting increases in others. All of the City's major revenue sources are essentially fixed in the amounts they will contribute: estimated property taxes -- to a statutorily allowable level; state aid -- to the cherry sheet estimates; and federal revenue sharing -- to an amount allocated by formula.

Revenue risks lie in the possibility for shortfalls among the several hundred (relatively small) accounts classified as departmental revenues; from the City's hospital revenues; and from taxpayers who do not pay the taxes they owe.

Offsetting these contingencies is the expectation that total property sales are now expected to raise more revenue than was originally estimated -- besides garages, there are sales of schools, properties taken for unpaid taxes, and abandoned housing projects.

Summary - Fiscal 1985 and Fiscal 1986

Revenue projections are more routine in this post-Proposition 2-1/2 era since the increase in property taxes is confined by two statutory provisions:

- o The City's levy may increase each year by 2.5%, if the ratio of the adjusted levy to total assessed valuations is no greater than 2.5%, and
- o There may be an additional increase in the levy for properties which have either increased in value by 50% or more over the previous fiscal year or were tax exempt; if the ratio of the adjusted levy to total assessed valuations is no greater than 2.5%

In future fiscal years the city would again receive revenues from the state, from the federal government, and from its own nontax sources. For fiscal 1985 and fiscal 1986 it is reasonable to apply basically the same assumptions to these estimated increases as were used for the current fiscal year: that the city will receive an increase of approximately \$25 million in state aid above the previous fiscal year (based on the potential for economic growth in the state's major taxes and on the retention of Boston's share of the total); that federal revenue sharing will be level funded and, that the requirement that departmental revenue estimates may not exceed the previous fiscal year's receipts (unless otherwise documented) will apply except for hospitals, interest, and in-lieu of tax payments.

The key element for projecting future fiscal year revenues is the estimation of the amount of new construction to be completed during the calendar year preceding the commencement of a fiscal year. The estimated full value of new construction expected to be completed in 1984 and 1985 and a

description of how the new values would be applied in the levy calculation for fiscal 1985 and 1986 is provided in detail in this chapter.

For fiscal 1985, the 2.5% allowable increase in the levy would produce an additional \$8.3 million in new revenues, and the estimated new valuations from new construction could add an additional \$8.9 million.

For fiscal 1986, the 2.5% allowable increase in the levy would produce an additional \$8.8 in the levy, and the additional valuations from new construction is estimated to allow an additional \$38.3 million.

Total fiscal 1985 revenues, from all of the sources identified above, are estimated to be \$920 million and total fiscal 1986 revenues, from the same sources, are estimated to be \$1.0 billion. These amounts do not include property sales, transfers and non-recurring revenues.

The following sections discuss the outlook for all of the City's categories of recurring revenues.

THE BOSTON ECONOMY

It is generally assumed that the economy of the state is considerably more important to the state's revenues than the economy of the city is to the city's. This is because the state's principal revenue sources (income, sales, and corporate taxes) are widely described as economy driven. The effect of inflation on wages and salaries for the past five years has caused the following annual increases in tax revenues: income (8% to 14%), sales (6% to 13%), and corporate excise (1% to 20%). These are tax revenue increases which the state can virtually count on without any active change in rates or tax laws.

In contrast, Boston's (and other cities' and towns') principal revenue sources, the property tax, has been viewed as economically sluggish and unresponsive to the growth potential of an inflationary economy. Increases in tax rates or the tax base -- active events -- are required to produce increases in property tax revenues. In Massachusetts, it is not customary to describe the property tax as economy-related, particularly since local assessors have been reluctant to make even periodic changes in property valuations. Only in the most recent three years, since the passage of Proposition 2-1/2, has this situation changed. Revaluations have been implemented in all but a handful of the state's cities and towns and there is progress, if not yet successful, in the use of computer-assisted systems for updating valuations. When regularly updated property valuations are a routine event, the property tax will be found to be as responsive to economic changes as the state's sources of tax revenues.

For Boston, the prospect is favorable for an economy-driven tax base, one capable of producing annual increases in property tax revenues. The outlook is good for both residential and commercial properties. In part, this reflects the City's implementation, in 1983, of a long postponed revaluation. The 1983 revaluation resulted in residential and commercial property tax rates which compare favorably with those of the suburban cities and towns of metropolitan Boston.

The economic impact of relatively moderate property taxes, the capitalization effect, can be expected to have a highly beneficial impact on the value of the city's residential properties. In the current fiscal year, the effective tax rate for residential properties is 1.7%, comfortably below the 2.5% limit. The city's housing prices are also

rising due to a shortage in supply and to the impact of inflation on new house construction costs. The city's stock of existing housing is a financial resource with a strong potential for economic growth. By capturing the market's effect on property values, through frequent tax valuation adjustments, the City is able to benefit (subject to limitations) from this growth in its economic base.

Property tax revenues can also be economy-driven through the impact on commercial properties of the demand for office space. Fortunately for Boston, this demand is a growing one and the City is in a strong position to directly benefit.

During the period 1979-1983, the City's tax base expanded dramatically from the construction of office buildings and hotels in the downtown district and the construction of health, education and cultural facilities in many sections of Boston. The City's new construction has been extraordinarily visible evidence of the city's economic vigor and reflects an estimated \$1.5 billion in construction costs.

The structure of Boston's economy is markedly different from the state's. Although both the City and the state as a whole have the largest percentage of total employees in the services sector -- Boston 35.3%, the state -- 26%; Boston's service sector is one-third of its total employment while the state's service sector is one quarter. The state's second largest employment sector is manufacturing -- 24.2%, whereas for Boston, manufacturing employment represents less than 10% of the total. Another distinctive difference between the City and the state is employment in the finance, insurance, and real estate sector. In Boston, 14% of total employment is in this business category; for

the state as a whole, less than half as much -- only 6.4% is employed in the finance sector.

TABLE 1

STRUCTURE OF BOSTON'S EMPLOYMENT
COMPARED WITH THE STATE, 1982

<u>Sector</u>	<u>Boston</u>	<u>State</u>
Services	35.3%	26.0%
Government	16.3	14.0
Trade	14.7	21.7
Finance	14.0	6.4
Manufacturing	9.1	24.2
Other	<u>10.6</u>	<u>7.7</u>
TOTAL	100.0%	100.0%

SOURCE: Boston -- BRA; State -- Mass. Division of Employment Security.

The backbone of Boston's economic growth has been in the employment classification called "services". In Massachusetts, services are considered to be largely export activities because of the many out-of-state users for the state's health and education facilities and the extent to which Massachusetts business services are marketed in the adjacent New England states. Service activities have also been demonstrated to be more recession-proof than most manufacturing industries, with the strong employment record of the most recent years as the best evidence. In Boston, as outlined in Table 2, the largest sub-classes of service employees are health and hospitals, business and advertising, and education.

The growth in city, metropolitan area, and state employment, even during the most recent years of national recession, is summarized in Table 3.

TABLE 2

COMPOSITION OF SERVICES
EMPLOYMENT, BOSTON 1980

<u>Service</u>	<u>Numbers Employed</u>
Health and Hospitals	59,776
Business and Advertising	35,205
Education	24,112
Professional (Engineering, Architectural, Research, Auditing)	20,638
Social Services	12,648
Legal Services	8,362
Hotel and Lodging	5,974
Membership Organizations	5,617
Auto Repair	4,371
Personal Service	4,127
Amusement and Recreation	2,819
Other	4,342
TOTAL	<u>187,991</u>

SOURCE: BRA

TABLE 3

EMPLOYMENT IN BOSTON AND
THE REST OF THE STATE, 1979-1983

<u>SECTOR</u>	<u>Amount of Change</u>		<u>Percent of Change</u>	
	<u>Boston</u>	<u>Rest of State</u>	<u>Boston</u>	<u>Rest of State</u>
	(in thousands)			
Manufacturing	(4.9)	(52.9)	-9 %	-9 %
Construction	0.4	(2.3)	+4	-4
Transportation & public utilities	(0.1)	(1.4)	0	-2
Wholesale & retail trade	(3.2)	4.3	-4	+1
Finance	12.9	9.8	+20	+12
Services	13.2	76.1	+7	+18
Government	<u>(6.6)</u>	<u>(42.2)</u>	<u>-7</u>	<u>-13</u>
TOTAL	<u>11.7</u>	<u>-8.6</u>	<u>2 %</u>	<u>0 %</u>

SOURCE: Boston Employment Share: BRA, August 1983; Boston Labor Market and Statewide Employment: Massachusetts Division of Employment Security.

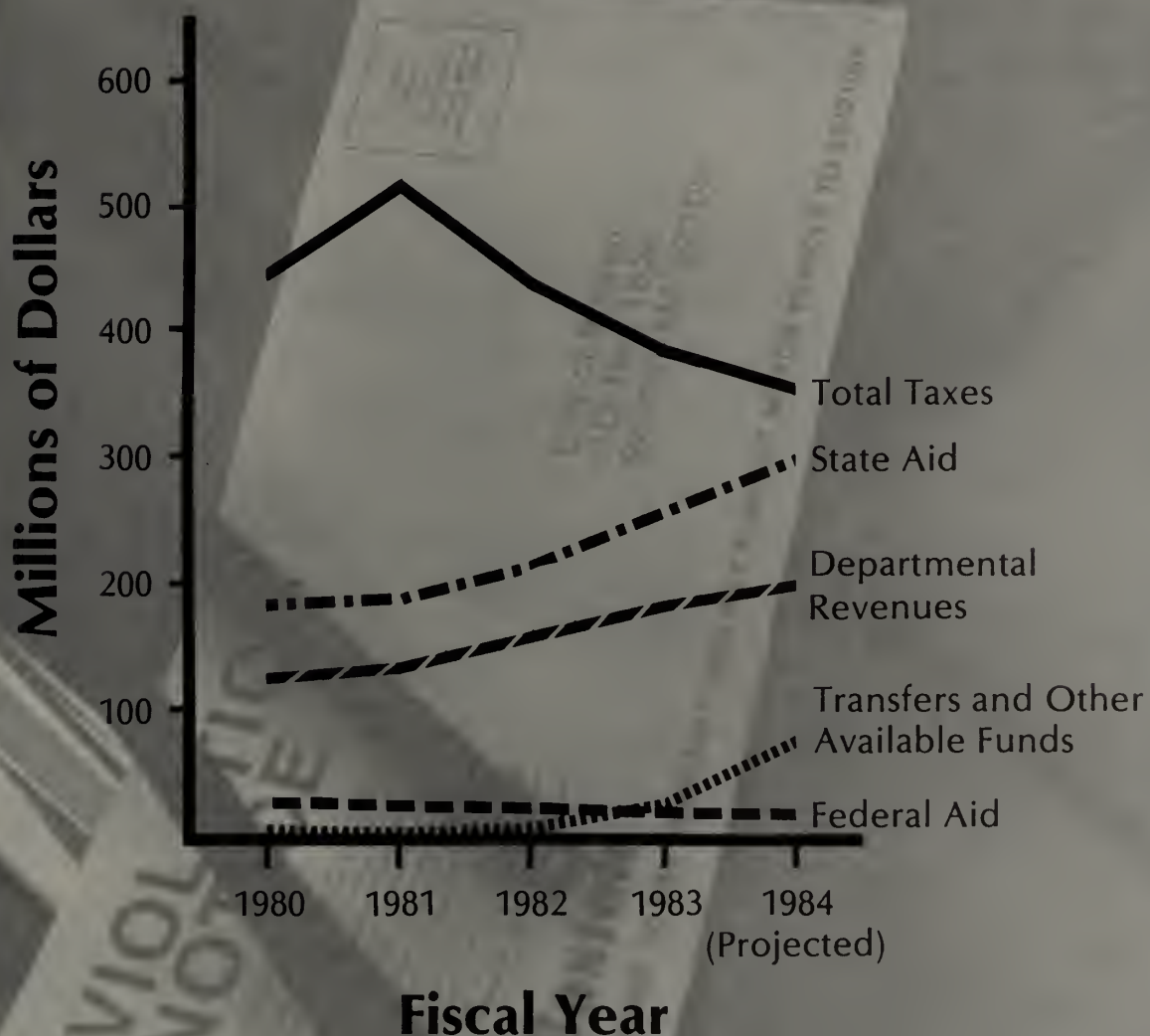
The city's largest area of economic growth during 1979-1983 was in services (13,200 new jobs). Boston's percentage increase in service employment for this period was less than the state's -- 7% compared with 18% -- but its initial base was large, almost one-third of the state's total service employment. The second largest area of employment increase was in finance (12,900 new jobs, an increase of 20%). The growth in these two areas was sufficient to offset employment losses in other sectors, and to result in overall growth in the city's total employment during a period in which the state sustained a slight loss.

Overall, Boston is in a good position to capture the benefits of its strong economy in increasing tax revenues. Growth in the City's tax revenues can come not only from the valuations of the new downtown office buildings, but from the valuations of a wide range of other city commercial and industrial properties whose occupants' businesses are stimulated by a strong, downtown office economy such as Boston's. Strong businesses create a demand for space; and, it is the demand for space that generates the strong economic rents on which 31% of Boston's commercial property tax revenues are based.

OVERVIEW OF THE CITY'S REVENUES

Fiscal 1984 revenues are noteworthy for three reasons. It is the first year -- probably in the City's history -- in which the share of Boston's total revenues expected from property taxes (35%) almost equals the revenues the City will receive from the state (32%). Only four years ago, in fiscal 1980, property taxes raised 54% of the City's total revenue and state aid represented 23% of the total. Fiscal 1984 state aid is \$42.1 million above the previous year amount.

Boston's Revenues by Source: FY 1980 to FY 1984



Second, \$72.5 million (8%) of the City's fiscal 1984 estimated total revenues is derived from sources that cannot be repeated in future years. Surplus revenues, totalling \$53.7 million, in two funds -- the Disproportionate Assessment Fund and the fiscal 1982 Overlay Deficit Reserve Fund -- will be transferred to the City's General Fund.

Additionally, \$18.5 million is anticipated from the sale of city garages. The figures for fiscal 1983 indicate that other nonrecurring revenues were \$20.8 million, and in the previous five fiscal years they ranged from \$253,000 to \$5 million.

The third noteworthy revenue event of fiscal 1984 is that Boston's property levy, in the third year of reductions after the adoption of Proposition 2-1/2, achieved the level of 2.5% of total assessed valuations. The amount to be raised by property taxes in fiscal 1984 is \$333.3 million, \$161 million below the amount of property taxes collected in fiscal 1981, the year prior to the implementation of Proposition 2-1/2. Property taxes have declined 32.6% from the fiscal 1981 high point.

The combination of these three fiscal 1984 revenue events results in above-average revenues for the city. As summarized in Table 4, fiscal 1984 revenue is \$95.6 million above the average of the three previous fiscal years.

In fiscal 1984, the property tax is Boston's largest source of revenues, comprising 35% of the total. Three additional taxes, the Urban Redevelopment excise (Chapter 121A), the Motor Vehicle excise, and Boston's share of state racing taxes, are anticipated to raise an additional 3% of the City's total revenues. Departmental revenues -- from

TABLE 4

BOSTON REVENUES FY 1979 - FY 1984
(dollars in millions)

Revenue Source	FY 1980	FY 1981	FY 1982	FY 1983	Est. FY 1984
<u>Total Taxes:</u>					
Property	\$414.8	\$494.3	\$416.7	\$354.4	\$333.3
121-A	11.6	13.5	15.0	23.1	18.0
Motor Vehicles	16.4	11.2	6.8	7.5	7.5
Racing	N/A	N/A	N/A	0.6	0.6
TOTAL TAXES	<u>442.3</u>	<u>518.9</u>	<u>438.4</u>	<u>385.5</u>	<u>359.4</u>
<u>Departmental Revs:</u>					
City	39.6	41.9	51.8	76.4	79.6
Health/Hospitals	72.6	80.2	93.7	98.2	113.8
County	7.6	6.3	11.0	5.6	5.6
Schools	3.2	0.6	0.7	1.0	0.9
Parking Meters	2.0	2.0	0.7	.0	.0
TOTAL DEPART.	<u>125.0</u>	<u>131.0</u>	<u>157.8</u>	<u>181.1</u>	<u>199.9</u>
<u>State Aid:</u>					
Teachers Pensions	17.2	18.0	19.0	20.0	19.8
Other	<u>163.4</u>	<u>169.8</u>	<u>193.3</u>	<u>237.3</u>	<u>274.9</u>
TOTAL STATE AID	<u>180.7</u>	<u>187.8</u>	<u>212.2</u>	<u>257.2</u>	<u>294.7</u>
<u>Federal Aid:</u>	<u>22.5</u>	<u>21.9</u>	<u>20.7</u>	<u>18.9</u>	<u>18.0</u>
<u>Transfers and Other Available Funds:</u>					
Cemetery, other	1.1	0.3	5.2	20.8	0.0
D.A. Fund Surplus	.0	.0	.0	.0	34.1
Sales	.0	.0	.0	.0	18.5
Overlay Surplus	.0	.0	.0	.0	19.6
TOTAL TRANSFERS	<u>1.1</u>	<u>0.3</u>	<u>5.2</u>	<u>20.8</u>	<u>72.5</u>
GRAND TOTAL	<u>\$722.0</u>	<u>\$859.8</u>	<u>\$834.4</u>	<u>\$863.0</u>	<u>\$944.5</u>

SOURCE: FY 1980-FY 1983 -- Auditor's Office, Boston; FY 1984
-- Tax Rate Recapitulation and "Cherry Sheet" Department of Revenue.

several dozen sources of charges, fees, fines and reimbursements -- will contribute 21% of Boston's total revenues. The largest single source, comprising 12% of total revenues, is from the City's hospitals. Intergovernmental revenues, from the state and federal governments, represent 34% of total City revenues. The federal share will be slightly

below the previous year's fiscal 1983 amount and represents 2% of the City's total.

Own-Source City Revenues

Boston's overall revenue pattern is similar to other cities'. In fiscal 1981, the most recent year for which U.S. comparable figures are available, 80% of Boston's total own-source revenues came from taxes, compared with an average of 70% for 46 other U.S. cities with populations in excess of 300,000. Since fiscal 1981, Boston's property and motor vehicle tax revenues have declined by one-third. It is probable that the share of Boston revenue coming from taxes is now below the national average, but that the composition of its tax revenues -- compared with the U.S. average -- is unchanged. In fiscal 1981, property taxes represented 99% of Boston's tax revenues compared with a U.S. average for other cities of 44%. Even with the one-third drop in fiscal 1981-fiscal 1984 property taxes, Boston's heavy reliance on this revenue source exceeds that of comparable U.S. cities.

TABLE 5

COMPARATIVE OWN-SOURCE REVENUES, FISCAL 1981
(percent of total revenues)

	<u>Boston</u>	<u>U.S. Average City*</u>
<u>TAXES</u>		
Property	79 %	31 %
Sales	N/A	11
Alcoholic Beverages	N/A	0
Motor Fuels	N/A	0
Public Utilities	N/A	4
Tobacco	N/A	0
Other	N/A	2
Income	N/A	15
M.V. Licenses	N/A	1
Other	1	4
TOTAL TAXES	<u>80</u>	<u>70</u>
<u>CHARGES</u>		
Education	0	1
Highways	0	1
Hospitals	11	3
Sewerage	2	4
Sanitation	0	1
Parks, Recreation	0	1
Housing	0	2
Airports	N/A	3
Water Transport	N/A	1
Parking	1	1
Commercial	N/A	0
Other	1	2
TOTAL CHARGES	<u>16</u>	<u>18</u>
<u>MISCELLANEOUS</u>		
Assessments	0	1
Sales	0	1
Interest	3	7
Fines	1	2
Other	0	2
TOTAL MISCELLANEOUS	<u>4</u>	<u>12</u>
GRAND TOTAL	<u>100 %</u>	<u>100 %</u>

Note: Parts may not sum to totals due to rounding.

0% = less than 1%

N/A = Not Applicable

* Forty-seven cities

SOURCE: Table 8 "Finances of Individual City Governments Having 300,000 Population or More, 1980-81", City Government Finances in 1980-81, U.S. Bureau of the Census, December 1982.

PROPERTY TAX REVENUES FISCAL 1985 AND FISCAL 1986

Amount to be Raised in FY 1985

The property tax is the primary source of Boston's revenues, as it is for all Massachusetts cities and towns. In the current fiscal year this tax is estimated to produce \$333.3 million for the City, and in fiscal 1985 it is expected to raise no less than \$341.6 million. The minimum amount of revenue expected from this source is known since it is a statutory calculation (described below); the problem with the amount is that it allows the City only \$8.3 million in new budgetary revenues, an amount insufficient to cover increases in the City's fixed costs. This problem of allowable property tax increases which barely, or do not, cover fixed cost increases is a common one for Massachusetts cities and towns. Each has its own way of coping with the limitation. Boston is among the state's fortunate localities in that there is a prospect for further revenues.

TABLE 6

BOSTON TAX REVENUES FY 1979 - FY 1984
(dollars in millions)

<u>Revenue Source</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>Est. FY 1984</u>
Property Taxes	\$414.8	\$494.3	\$416.7	\$354.4	\$333.3
Urban Redevelopment Excise (Chapter 121-A)	11.6	13.5	15.0	23.1	18.0
Motor Vehicle Excise	16.4	11.2	6.8	7.5	7.5
Racing	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>0.6</u>	<u>0.6</u>
TOTAL TAXES	<u>\$442.3</u>	<u>\$518.9</u>	<u>\$438.4</u>	<u>\$385.5</u>	<u>\$359.4</u>
SOURCE: FY 1980-FY 1983 -- Auditor's Office, Boston; FY 1984 -- Tax Rate Recapitulation, Department of Revenue.					

Impact of Proposition 2-1/2

Due to the success of Boston's economy, and the resulting enormous growth in new construction, the estimation of the City's property tax revenues is still a matter of conjecture. If it were not for the expansion of its property tax base, the calculation of revenues available from this source would be as routine as it is in most of the state's other cities and towns since the adoption of Proposition 2-1/2. The overall property tax rate can be no greater than an effective 2.5 percent of the locality's total assessed valuations, and its annual increase in the tax levy cannot increase more than 2.5 percent (without an approval through a referendum vote), with one significant exception. In 1981, the Proposition 2-1/2 law was amended to exclude from the limit on the annual levy increase, any increases in parcel valuations in excess of 50% of the previous year or a previously exempt property. Such increases frequently result from building construction (or reconstruction).

For the past three years, Proposition 2-1/2 forced the City to reduce the amount of revenue it could collect from the property tax. Due to these reductions, and also the revaluation of city properties, Boston is in a position in 1985 to take advantage of both the allowable annual increase in the levy (of 2.5 percent) and of the 1981 growth amendment.

The calculation of the allowable increase in revenues from the annual 2.5 percent increase is a relatively simple matter; but the calculation of what property valuations may be coming onto the assessment books for the first time (as of January 1, 1984) is a considerably less routine issue. The calculation of the annual increase would be even simpler except for one problem still facing the City in fiscal 1985: its fiscal 1984 effective tax rate is precisely at the 2.5%

limit and the Commissioner of Revenue has ruled there may be no allowable levy increase if the ratio of the increased levy to assessed valuation exceeds 2.5%. In other words, the effective 2.5% tax rate limit, once reached, may not be exceeded.

For this report, calculations of possible increases in both the existing and prospective tax bases were undertaken to demonstrate the City's potential from these revenue sources. This section discusses the administrative problems facing the Assessor's office and addresses why the property tax is one of the most difficult to collect. This section does not present the issues concerning the administration of the property tax. (See Assessing.) In discussing the economic potential for new tax revenues, even from established increases in property values, the following must be considered:

- o The difficulties of establishing the valuations for tax purposes.
- o Defending the valuations in instances of legal challenge.
- o Handling the political impact of too great, or too disproportionate, a tax change.

Revenue Projections from the Existing Tax Base

Interviews with persons associated with property tax administration, both within Boston and at the state government level, indicated that there is a potential for property valuation increases in the existing tax base. The potential is in the extent to which current assessments are below full fair cash (100%) valuations and in the prospects for value growth due to economic change. Annual 2.5% increases in the City's tax levy can easily be met, without

conflict from statutory limits on over assessment, from increases in the values of existing properties. To develop this further, to see what sections of the City and what properties might serve as the resource for this annual levy growth, figures were developed by ward and property class.

The fiscal 1984 tax rate was set on a total tax base of \$13.3 billion. A breakdown of this base appears in Table 7. The residential class of properties is the largest single property class and is comprised of single family residences (which includes condominiums), two and three family residences, residential properties containing four or more dwelling units, and residential/commercial properties (properties in which the ground floor is commercial and there are one or a few dwelling units above).

TABLE 7

COMPOSITION OF FISCAL 1984 TAX BASE
(dollars in thousands)

Residential	\$6,169.2
Commercial	4,563.4
Industrial	776.3
Personal	<u>1,821.8</u>
TOTAL	<u>\$13,330.7</u>

SOURCE: FY 1984 Tax Rate Recapitulation, Department of Revenue.

In September 1983, the City's Commissioner of Assessing published a study of the changes in assessment-sales ratios in the City. The purpose of the study was two-fold: (1) to document the factors used to increase valuations between fiscal 1983 and fiscal 1984, and (2) to demonstrate how a future system could be developed, and applied, for the maintenance of valuations. In reviewing property sales to determine patterns of economic change, the basic unit for analysis were trending regions.

The study's key results, applicable to the present task of estimating the revenue potential for fiscal 1985, were the relative percentage changes in property values among the City's trending regions. The changes are those which appear probable based on recent economic evidence (property sales). Although the trending regions differ from wards -- and only ward assessed valuations were available -- there is sufficient conformity between the two to adapt the study's geographic delineations.

A second resource available for the projection of property tax revenues from the existing base was a study of the assessment-sales ratios of properties prior to the implementation of the revaluation. Although the study was completed prior to the implementation of the revaluation, and prior to the factored increases of fiscal 1984, it presents estimates of full cash values for residential sub-classes to allow revenue estimators outside of the assessor's office to evaluate single, double, and triple dwelling unit properties separately from the sub-classes which have four or more dwelling units. In addition, the study also presents comparable information on assessment-sales ratios by the trending regions, extending the evidence of market value changes over a still longer period of time.

The methodology of estimating a low and high range of increased property tax revenues for fiscal 1985 from the existing tax base was as follows:

1. Each ward was assigned an association with one of the trending regions (of the Assessor's report).
2. The preliminary assessed value of all residential properties was adjusted by a factor (a ratio of 0.77%) calculated

from the assessed valuation of residential properties appearing on the recapitulation report submitted to the Commissioner of Revenue.

3. The assessed valuation of residential properties with four or more dwelling units was separated from the total residential class and aggregated with commercial and industrial properties.
4. A factor of 2.5% was applied to all single family residential properties in the wards which the Assessor's 1983 sales trending study indicated had average, or below average, value increases.
5. A factor of 5.0% was applied to all single family residential properties in the wards which the Assessor's 1983 sales trending study indicated had above-average value increases.

The resulting projections, using both an across-the-board 2.5% increase (as the low estimate factor) and a selective two-level factor approach (as the high estimate) indicate that it would be economically feasible in fiscal 1985 for the City to raise its tax base in the ranges shown in Table 8 over the fiscal 1984 levels. The selective factor approach applies a 5% increase to downtown commercial properties and to those residential properties which the trending studies indicate had the highest market value changes.

TABLE 8

HYPOTHETICAL VALUATION OF INCREASES IN THE
EXISTING TAX BASE
(dollars in millions)

	<u>Valuation At 2.5%</u>	<u>Increases at Selective Percentages</u>
Residential	\$163.7	\$231.5
Commercial/ Industrial	<u>138.0</u>	<u>222.5</u>
TOTAL	<u>\$301.7</u>	<u>\$454.0</u>

In fiscal 1985 the allowable 2.5% increase in the City's levy, above the fiscal 1984 level, totals \$8.3 million. (See Table 10.) The application of across the board increases of 2.5% to residential and commercial/industrial properties, would increase the City's total assessed valuations from \$13.3 billion (the amount used by the Commissioner of Revenue in calculating the City's fiscal 1984 levy limit) to \$13.6 billion. To determine whether the City's FY 1985 levy would be under, equal with, or above the overall 2.5% ceiling, the proposed fiscal 1985 levy of \$341.6 million would be divided by the projected base of \$13.6 billion. The resulting effective tax rate would equal 2.5%. Even if Boston were to rely solely on its existing fiscal 1984 tax base, the City could use all of the allowable \$8.3 million increase in its fiscal 1985 levy.

Estimated Increases from New Construction FY 1985

The source of data on anticipated new properties for the City's tax base is the Boston Redevelopment Authority (BRA). The BRA receives the estimates for new construction projects from developers at the time the project's

plans are submitted for approval. The Authority's listings arrange the developments by the year in which they are to be completed and are periodically revised. Such a revision occurred during the first week in January 1984, and the results show a significant impact on the revenues the City can anticipate collecting in fiscal 1985 compared with earlier projections.

From the viewpoint of estimating City revenues, it is the calendar year preceding the calendar year in which the fiscal year begins that is significant: For fiscal 1985, new development projects must have been completed during calendar year 1983 and for fiscal 1986 the relevant projects are those completed during calendar year 1984. The BRA's January revision of the projects expected to be completed during 1983 shows five significant deletions as the completion was shifted from 1983 to 1984. These projects and their estimated valuations are: Marriott (\$133 million), Copley Place (\$130 million), Dewey Square (\$110 million), 53 State Street (\$100 million) and Four Seasons (\$42 million).

The shift in construction dates for the above properties reflects a number of events which have arisen in connection with the full occupancy and use of these properties -- labor disputes, postponed occupancies on the part of major tenants, under-subscribed leases, as well as normal delays which frequently impact large (and small) construction projects. Since the new properties expected on the City's tax base make a critical difference in the amount of revenues the City can anticipate in fiscal 1985 -- both from the allowable 2.5% increase in the levy over the previous year and in the added value of first-time assessments (which may be added to the levy on top of the 2.5%) -- the BRA's construction listings were reviewed in some detail.

In constructing an inventory of the valuations of properties that can be anticipated as new for the fiscal 1985 tax base, there were certain properties included on the BRA listings which must be excluded for tax review purposes: properties listed as falling under the Chapter 121A provisions, properties which by their nature (educational, medical or cultural institutions) are exempt from the property tax, and economic development (EDIC) properties subject to special payment arrangements with BRA. In addition, two developments on Massachusetts Port Authority properties were excluded, to be conservative and in recognition of the probability that legal disputes could arise regarding tax revenues from these sources.

In projecting tax base values from the BRA's listings, it is necessary to apply a full adjustment factor to account for financing and other development related costs which do not show up in the amounts submitted by a developer to the BRA. Since the adjustment factor significantly inflates the construction figures, it seemed critical to confirm the reasonableness of this adjustment factor. Interviews with persons familiar with commercial and industrial construction projects, with members of the BRA staff, and with persons holding responsible positions in one of the City's largest commercial real estate development firms and in one of the City's largest construction companies, confirmed the application of such a factor to account for the difference between construction costs and the full value of completed projects. The additional costs were termed "soft costs". They include the fees of architects, lawyers, and other specialists plus the cost of borrowing funds. In addition, there is land cost. Since there can be no one percentage figure which is equally applicable to all projects, ranges were chosen which appeared to reasonably approximate the total of these soft costs for different types of construction and downtown or neighborhood sites.

For the present purposes of revenue estimating, by applying different full cost factors it was feasible to project the values of broad property categories. Rehabilitation and conversion properties, although separately identified by the BRA, were treated as one sub-class. These properties were instead separated by the size of the project, with a separation between those estimated to cost \$5 million or above from those estimated at less than \$5 million. New construction costing \$5 million or above was in a class of its own. New construction costing less than \$5 million was aggregated with rehab and conversion properties.

The justification for regrouping construction projects into categories above and below \$5 million, for the purpose of applying a full cost adjustment factor, was the reported fact that the cost of interest (a substantial portion of all soft costs) is less for the smaller projects. These projects are often able to receive short term construction loans, repayable in less than one year.

The full cost adjustment factor applied to rehabilitation, conversion, and new projects costing less than \$5 million was 1.18 -- reflecting an assumption that these projects' soft costs approximate 15% of full value. The full cost adjustment factor applied to rehabilitation and conversion projects costing \$5 million or above was 1.33 -- reflecting an assumption that these projects' soft costs approximate 25% of full value. The full cost adjustment factor applied to new projects costing \$5 million or above was 1.54 -- reflecting an assumption that these projects' soft costs approximate 35% of full value.

Another adjustment to the BRA figures was necessary before estimates could be developed; an estimate was required to account for the portion of final development

costs that it was reasonable to believe would have been captured by the City's assessors in the year, or years, between the commencement of construction and completion. Based on interviews with City officials, different assumptions were adopted in calculating this adjustment. Average deduction of 20% -- for previous year's tax assessments on properties costing \$5 million or above -- was in some instances amended to 30%. City officials had noted that owners of a few of Boston's major development projects considered the pre-completion date assessments on their properties to be excessive. The \$5 million cut-off was adopted on the grounds that projects costing less than this amount were likely to be completed in less than one year; or, to be so insignificant an investment in the first year as not to have been valued for tax purposes.

TABLE 9

FISCAL 1985 ESTIMATED TAX BASE INCREASE
FROM NEW CONSTRUCTION
(dollars in millions)
Construction Costs as % of Development Costs

<u>Property Type</u>	<u>@ 85%</u> (1.18)	<u>@ 75%</u> (1.33)	<u>@ 65%</u> (1.54)	<u>Total</u>
Office	\$36.8	\$6.8	\$20.0	63.6
Retail	5.9	.0	.0	5.9
Transportation/Parking	.0	.0	3.5	3.5
Industrial	2.7	.0	.0	2.7
Residential	13.3	.0	9.0	22.3
Hotels/Other	.0	.0	122.3	122.3
TOTAL	\$58.7	\$6.8	\$154.8	\$220.3
Less Previous FY Assessment	NA	(-1.2)	-29.2	(30.4)
Plus Full Development Cost Factor	<u>10.6</u>	<u>2.0</u>	<u>83.6</u>	<u>96.2</u>
NET TOTAL	<u>\$69.3</u>	<u>\$7.6</u>	<u>\$209.2</u>	<u>\$286.1</u>

The combined total of the three property categories is \$286.1 million (see Table 9), but for revenue estimating purposes they must be further reclassified. In calculating how much the City may increase its levy due to new construction, residential properties must be separated from commercial and industrial, since the calculation of the added levy allowance from new construction uses each property class's previous fiscal year tax rate.

New 1983 construction would allow for an additional \$8.9 million in the levy. Combined with the 2.5% increase of \$8.3 million, this would mean \$17.2 million in increased fiscal 1985 property tax revenues.

TABLE 10

ESTIMATED FISCAL 1985 TAX LEVY
(dollars in millions)

Previous Fiscal 1984 Tax Levy	\$ 333.3
Allowable 2.5% Levy Increase	x 1.025
Fiscal 1985 Base Levy	<u>\$ 341.6</u>
New Est. Calendar Year 1984 Estimated Net Construction Values	
Commercial/Industrial (C/I) Valuations	\$ 259.3
Previous Fiscal 1984 C/I Tax Rate	x 32.54
Estimated allowable increase	<u>\$ 8.4</u>
Residential valuations (R)	\$ 26.8
Previous Fiscal 1984 R Tax Rate	x 17.10
Estimated allowable increase	<u>\$ 0.5</u>
Total Est. Levy Increase from New Construction	<u>\$ 8.9</u>
Total Est. Fiscal 1985 Tax Levy	<u>\$ 350.5</u>
Total Est. Levy Increase FY1984-FY1985	<u>\$ 17.2</u>

An alternative lower estimate, for new calendar year 1984 construction provided by the Assessor's office in the last week in December of \$175 million, instead of \$286.1 million, would result in \$12.9 million in increased property tax revenues in fiscal 1985 relative to fiscal 1984 instead of the \$17.2 million shown in Table 10. A higher

alternative estimate, one which applies the same full cost adjustment factor to all new construction (instead of the lower factors used in the above methodology for projects costing of less than \$5 million), produces an increase in the fiscal 1985 levy of \$0.7 million. The slight difference resulting from this approach reflects the extent to which major new construction dominates the total levy increase (due to new construction completed in 1983).

The amount of new construction used in the revenue estimate presented here (\$286.1 million) when added to the previous year's tax base of \$13.3 billion (used for calculating the effective tax rate), results in a fiscal 1985 total of \$13.6 billion. The fiscal 1985 levy, which would include the new construction valuations, would total \$350.5 million. The resulting effective tax rate would equal 2.57% or 0.07% above the allowable percent limit.

The City's existing tax base will have to be increased in its valuations to bring the ratio down. This can be accomplished by the assessors' office in several ways: (1) by again assessing the major new construction for which completion dates were postponed from calendar year 1983 to 1984 at partial-completion valuations (of less than 50%); (2) by capturing values from the reconstruction of residential properties (remodeling projects that do not result in increases of assessed valuations of more than 150% over the previous year); and (3) by capturing increases in the market values of existing properties due to inflation and the effects of capitilization.

Increases in the levy which come from new valuations -- defined as valuations which increase the value of the individual parcels property by at least 150% of the previous year's assessed value -- provide a growth in the levy

that exceeds the limits of the basic, annual 2.5% increase. However, increasing the total levy places a burden on the assessors to make sure that the existing tax base is also increased so that the overall effective tax limit is not surpassed. This will be a distinct, property tax administration issue for fiscal 1985. In future years, this may be less of an issue, particularly after the expansion in the property base which is anticipated in fiscal 1986.

Estimated Increases from New Construction FY 1986

The same methodology of reclassifying BRA reported construction values and applying full cost adjustment factors and previous year assessments was used to estimate the potential for increase in the fiscal 1986 levy. The results are impressive. The postponed completion (into 1984) of some of the City's largest development projects, combined with already scheduled 1984 completion dates for other major projects, results in an impressive \$1.2 billion of new construction that is projected for completion in that year. (See Table 11.)

TABLE 11

FY 1986 TAX BASE INCREASE
FROM NEW CONSTRUCTION
(dollars in millions)

Construction Costs as Percentage of Development Costs

<u>Property Type</u>	<u>@ 85%</u> <u>(1.18)</u>	<u>@ 75%</u> <u>(1.33)</u>	<u>@ 65%</u> <u>(1.54)</u>	<u>Total</u>
Office	\$26.1	\$27.0	\$462.3	\$515.4
Retail	16.2	.0	60.0	76.2
Transportation/Parking	.0	.0	19.8	19.8
Industrial	.0	.0	.0	.0
Residential	26.0	.0	29.0	55.0
Hotel & Other	<u>.0</u>	<u>14.0</u>	<u>175.6</u>	<u>189.6</u>
TOTAL	\$68.3	\$41.0	\$746.7	\$856.0
Less Previous FY Assessment	NA	(-8.2)	(-69.7)	(-77.9)
Plus Develop- ment Costs	<u>12.3</u>	<u>13.5</u>	<u>403.2</u>	<u>429.0</u>
NET TOTAL TAX BASE INCREASE	<u>\$80.6</u>	<u>\$46.3</u>	<u>\$1,080.2</u>	<u>\$1,207.1</u>

The effect of \$1.2 billion in estimated new construction values coming into the tax base for fiscal 1986 has a dramatic impact on allowable property tax revenues for that year. New construction theoretically could produce an additional \$38.3 million in the allowable property tax levy for fiscal 1986. (if FY 1983 residential and commercial/industrial tax rates were the same as for fiscal 1984). The increase in the levy from new construction, combined with the allowable 2.5% increase, means that the City may be in a position to increase its property tax levy by \$47.1 million in fiscal 1986.

Although potentially in a position to benefit from such a sizeable increase in the levy, the City must meet the approval of the Commissioner of Revenue by having the ratio

of its levy to its total assessed valuations not exceed 2.5%. Here the effect of the new construction has a far less fortunate impact on the City's revenues. The boost in the levy, which results from new construction, causes the levy to increase at a faster rate of change (10.9%) than the new valuations added to the assessed valuation base (8.9%). The cause for this differential in growth rates is the application of any tax rate (the previous fiscal year's commercial effective industrial rate) that is greater than 2.5%. The result: Boston's overall FY 1986 effective tax rate would exceed the 2.5% ceiling if it were to apply the full value of the new construction for levy growth (See Table 12). To use the new construction value in FY 1986, the City would be required to increase the valuations of its existing tax base.

TABLE 12

ESTIMATED FISCAL 1986 TAX LEVY
(dollars in millions)

Estimated Fiscal 1985 Levy	\$350.5
Allowable 2.5% Levy Increase	<u>x1.025</u>
Estimated Fiscal 1986 Levy	\$359.3
New Calendar Year 1985 Est. Net Construction Values	
Commercial/Industrial (C/I) Valuations	1.100
Fiscal 1985 C/I Tax Rates	<u>x32.54</u>
Estimated Increase	\$37.2
Residential Valuations (R)	\$64.9
Fiscal 1985 R Tax Rate	<u>x17.10</u>
	81.1
Total Est. Levy Increase for New Construction	\$38.3
Total Est. Fiscal 1986 Tax Levy	<u>\$397.6</u>
Total Est. Fiscal 1985 Tax Base	\$13,616.8
Total Est. Fiscal 1986 Valuation Increase From New Construction	<u>\$1,207.1</u>
Total Est. Fiscal 1986 Tax Base	<u>\$14823.9</u>
Ratio of Fiscal 1986 Levy/Assessed Valuations	2.68

The situation is a difficult one for the City. After three years of property tax reductions it is now at the mandatory 2.5% effective tax rate ceiling. However, it now finds itself in the bind of either having to annually increase the valuations of its existing tax base if its revenues are to benefit from the new construction that will soon be on its assessment books, or fore go the revenue it is legally entitled to under the terms of Proposition 2-1/2.

Increasing the valuations of the existing tax base by the selective application of 2.5% and 5% factors would not be enough to bring the effective tax rate equal with the 2.5% ceiling. Higher valuation adjustments to existing properties would be required.

Of critical concern in the decision of which route to follow, will be the administrative conditions of the Assessor's office. There are good reasons to believe that the City will have the potential to annually increase the valuations of its existing base in order to enable the levy to increase. The structure for a computer-assisted appraisal system, a necessity in a city the size of Boston if valuations are to be adjusted annually or even biennially, was inherited from the 1983 revaluation. Of equal significance is the strength of the City's economy which appears to justify regular increases in property valuations as a reflection of increases in the market value of the City's properties.

The combination of an assessment system still in the need for substantial modernization and the surge in construction values compressed into two to three fiscal years may prevent the City from fully benefiting from its own revenue resources. In future years, there are strong prospects that as the new assessments from new construction

become part of the base and the levy growth slows to a level closer to the routine 2.5% increase, the City's effective tax rate will fall below the 2.5% ceiling and the City will more easily capture the full value of its developing economy.

IV. BOSTON'S DEPARTMENTAL REVENUES

In fiscal 1984, \$199.4 million or 21% of Boston's General Fund revenues are anticipated from departmental revenues. "Departmental revenues" is an umbrella title for approximately 300 fees, licenses, fines, penalties and charges for services administered by the City. Also included in this category of revenue is income from rents, sales, interest on investments and gifts. It is difficult to summarize such a myriad group and when the City's finances are debated they tend to be overlooked -- in part, for this reason.

This state, and its cities and towns, are frequently faulted for an under-reliance on these revenues. But it would appear from a review of the most recent intercity financial comparisons that Boston is not doing badly in this area. In fiscal 1981, Boston's departmental revenues were 16% of the City's revenues -- below, but only slightly, the U.S. average of 18% for cities of 300,000 or above.

The City's authorization for fees, licenses, fines and other charges parallels the state's. Fees may be set at a level sufficient to recover the service costs for which the fee is charged, but not beyond. Unlike taxes, these revenues are not intended as general City revenues. Tax revenues pay for programs benefiting all residents. Fees and licenses provide for the recovery of costs for services

which primarily benefit particular individuals or institutions. A few examples are birth certificates, mooring permits and bicycle registrations.

Since fiscal 1981, the City has increased the cost of most of its fees, licenses, fines and other charges. In 1981, the Mayor's Office of Fiscal Affairs proposed increases in two-thirds of the City's fee categories. Although some proposals were rejected by the City Council, most were approved and by the close of fiscal 1983 revenues from these sources were \$31 million, almost twice the fiscal 1981 level.

A review of the City's levels of charges should be repeated. Ideally, a mechanism should be established which automatically increases these charges in response to escalating costs.

The following are Boston's major categories of departmental revenues:

1. Health and Hospitals

The City's health and hospital revenues represent over 50% of Boston's total departmental revenues. Total revenues from the City's three hospitals (see the Health and Hospitals chapter) have increased during the past five years, but the growth is attributed only to Boston City Hospital. Mattapan's revenues have declined and Long Island Hospital's have been almost level. The patients at Mattapan and Long Island hospitals are hospitalized for rehabilitation, chronic and geriatric care. The annual patient days of these two hospitals has been declining Fiscal 1981-1984 -- Mattapan, 22% and Long Island Hospital, 25%.

TABLE 13

REVENUE FROM CITY HOSPITALS
FY 1979 TO FY 1983
(dollars in millions)

	<u>FY 1979</u>	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>
Boston City	\$40.1	\$53.9	\$60.8	\$74.7	\$81.1
Long Island	6.4	9.4	10.4	11.3	10.8
Mattapan	<u>7.4</u>	<u>7.9</u>	<u>8.3</u>	<u>7.6</u>	<u>6.3</u>
Total	\$53.9	\$71.2	\$79.5	\$93.6	\$98.2

SOURCE: Auditor's Office

The principal sources of hospital revenues are federal reimbursements from Medicaid and Medicare. Payments from third party insurers are the third principal source. Presently, there is approximately \$15 million in federal reimbursements which the hospitals classify as being at risk. The risk reflects a federal audit which claims that the hospitals over-charged for outpatient services. The matter has not been settled. Entitlement disputes such as this are not uncommon between local, state, and federal governments and they generally require years to be settled. While it is difficult to assign a probability to the risk involved, a settlement in favor of the federal government would generally result in repayment via reduced subsequent entitlements.

The City's public hospitals should possibly be considered for increased local aid. This increase would recognize Boston's financial burden for providing medical care to many of the City's transient and indigent population. Boston City Hospital, more than most of the state's municipal hospitals, serves patients with below-average financial resources. During the many years in which recipients of the state's General Relief program were denied state medical assistance, Boston City Hospital provided the necessary medical care without reimbursement.

2. Fees, Licenses and Permits

This general category includes approximately 300 fees, licenses and permits. In fiscal 1984, revenues from these sources are estimated at \$65.8 million, an increase of 5 percent over the previous fiscal year. Revenue increases in this category occur principally when there are statutory changes in fee levels, as in 1981. In the interim years, collections of these revenues are relatively constant.

TABLE 14

REVENUES FROM LICENSES AND PERMITS
BEFORE AND AFTER 1981 CHANGES
(dollars in thousands)

	<u>FY 1980</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>
Building				
Permits	\$1732	\$2293	\$3306	\$5196
Street				
Permits	188	N/A	572	616
Health				
Inspection	229	N/A	388	477
Alcoholic Bev.				
License	1469	1630	1567	1611
Entertainment				
License	388	337	562	1175
Misc. Business				
License	233	283	308	368
Cable TV	N/A	N/A	N/A	425
Other	<u>146</u>	<u>150</u>	<u>462</u>	<u>433</u>
TOTAL	<u>\$4,385</u>	<u>\$4,884</u>	<u>\$7,165</u>	<u>\$10,299</u>

SOURCE: Auditor's Office.

The largest subcategory of these revenues, licenses and permits totals an estimated \$10.3 million in fiscal 1984. Building inspections represent the largest item in this group and generated \$5.2 million of revenues in fiscal 1983 compared with \$3.3 million for the previous year. Table 14 reflects both the slow revenue growth of these sources, and the slight step-up in revenue level which the 1981 law changes produced.

The second and third largest items in this group are for entertainment and alcoholic beverage licenses. Each produced slightly more than \$1 million in fiscal 1983. The cost of alcoholic beverage licenses has not increased in years and, accordingly, the revenues from this source remain almost unchanged during the past five years.

3. Interest

The peak year for interest earned on the investment of City funds was fiscal 1981 when \$12.2 million was received. In the most recent year, fiscal 1983, this had declined to \$9.9 million. Interest rates slowed during the past year and the amount of City cash available for investment was relatively low due to the delayed issuance of property tax bills. Interest income is expected to improve for FY 1984 and FY 1985. With the sale of city properties, the Treasurer will have a sizeable amount of cash available for investment.

4. Payments in lieu of Taxes

In lieu of tax payments are received from approximately two dozen tax-exempt institutions. The largest such payment is from the Massachusetts Port Authority. The City negotiated an agreement under which the Authority makes annual payments based on a formula using passenger embarkation counts and annual changes in the consumer price index, i.e. a use-based formula with a provision for inflation. The formula remains in effect for continuous five-year periods and is changeable only with five-year previous notice. In the most recent and current years, Massport's in lieu of tax payments approximate \$4.6 million and represent the

largest of the City's in lieu of tax payment agreements. The City's in lieu of tax payments include revenues collected directly by the City under Ch. 121A , amounts which supplement the excise authorized by this Chapter that is administered by the State.

TABLE 15

PAYMENTS IN LIEU OF TAXES
(dollars in thousands)

<u>Source</u>	<u>FY 1982</u>	<u>FY 1983</u>
N. E. School of Law	\$13	\$13
N. E. Deaconess Hosp.	42	42
N. E. Medical Center Hosp.	83	91
Digital Equipment	21	64
Redevelopment Authority	0	50
Blue Cross/Blue Shield	102	88
Old City Hall	259	197
Suffolk University	35	44
Harvard University	502	590
Northeastern University	30	0
Boston University	11	1,265
Urban Redev. Corp.-Ch. 121A	5,465	6,580
Mass. Port Authority	4,341	4,621
Other	11	0
TOTAL	<u>\$10,904</u>	<u>\$13,645</u>

SOURCE: Auditor's Office, January 9, 1984

In lieu of tax payments exist for a variety of reasons. One such example might involve an educational institution applying for approval from the BRA for a development project on property which had previously been classified as taxable. An agreement, with no specific statutory authority, would be negotiated between the applicant and the BRA for annual in lieu of tax payments upon completion of the development. The City is on uncertain legal grounds with these arrangements; but, there are strong feelings on the part of many that more, rather than fewer, such payments should take place between the City and the institutions owning properties classified as tax exempt. It is unlikely,

however, that such agreements will become an area of revenue growth since the City's educational, medical, and cultural institutions also represent valuable resources which make a substantial, and partially indirect, contribution to the City's economy.

5. Rents

The City has lease agreements with private parking operations which produce annual rental income. Recently, rental income has approximated \$3-\$4 million per year. This income should significantly decline in the future due to the sale of several parking facilities. The City's rental arrangements reflect different philosophies of property management. Six of the City's garages are leased on a percentage basis -- 60% of daily revenues for five, 50% for the sixth. The remaining 17 garages have been paying fixed amounts of rent ranging from \$3000 a year to \$2.3 million. Only two garages pay over \$1 million, the average for the remaining 15 is \$164,000 per year.

The garage sold in fiscal 1984, Government Center, was the one producing \$2.3 million in rent. In fiscal 1985 the second of the two garages with rental income above \$1 million is also planning to be sold, the St. James garage. The other two garages scheduled for fiscal 1985 sale are Fort Hill and Killby Street, with rentals of \$161,000 and \$301,000 respectively.

It has proven attractive to the City to benefit from the large, lump sum payments of the garage sales; and, it may also be the case that city government is not in a position to effectively manage commercial, lease properties. Percentage based rentals would appear preferable to

fixed rentals; but considering the cash nature of the business, these would require accounting and supervisory oversight.

6. Property Sales

Two types of City-owned properties have been for sale in recent years -- abandoned schools and parking garages. The schools may, in time, become valuable properties in their new uses, but resale values have been nominal. The highest price listed among approximately 50 sales was \$225,000. Some schools were transferred for \$1. Many sold for \$5,000-\$10,000, others for \$40,000, \$60,000, and another group at the \$100,000 level. Some of these sales may produce future taxable revenues, but a review of disposition documents suggests that much of these facilities' future use will also be of a tax exempt nature.

The City's parking garages, on the other hand, have commanded substantial sales prices. The Government Center garage was recently sold for \$22 million. In fiscal 1986 the City expects three other parking facilities for a total sales price approximating \$41 million.

The City's routine property sales involve foreclosed, tax title properties. These sales continue to occur, but at very low prices. The recent "garage sale" activity producing sizeable revenues for the City will not always be available in future years.

7. Parking Fines

The fastest growing source of City revenues in the past two fiscal years relates to parking fees and fines. Prior to fiscal 1982, these sources had produced constant annual revenues approximating \$3 million. With the establishment of an Office of Parking Clerk, the City aggressively pursued a large backlog of parking tickets. In fiscal 1982 and fiscal 1983, revenues from this source soared to \$20 million and \$25 million respectively. In fiscal 1984, the City estimates collections at \$26 million. Monthly collections of 1983 were ahead of those for 1982 at an average rate of 11.5%.

TABLE 16

REVENUES FROM PARKING FINES
(dollars in thousands)

	<u>1983</u> <u>Total</u>	<u>1982</u> <u>Total</u>
January	\$ 1,896	\$ 1,300
February	317	1,630
March	2,460	1,890
April	1,223	1,514
May	4,929	2,763
June	3,216	880
July	610	2,192
August	680	1,093
September	646	1,394
October	2,050	1,040
November	1,401	952
December	<u>1,879*</u>	<u>2,461</u>
	<u>\$21,307</u>	<u>\$19,109</u>

* Receipts thru 12/27/83.

SOURCE: Auditing Department, January 9, 1984

After the collections realized from fiscal 1984, there could be concern that the backlog of outstanding parking tickets would by now be substantially reduced. However,

a study, commissioned by the City, estimated that there would still be \$60 million in uncollected parking fine liabilities at the close of fiscal 1983.

The Department of Revenue's experience with tax collections has demonstrated, however, that with the passage of time there is a sharp reduction in the probability of collecting amounts owed. The Department has also learned from many years of enforcement experience that there is a declining marginal value in the collection of past due payments.

For Boston, the hope of sustained, or increased, revenues from this source is likely to require further changes in the administration of the collection operation and amendments to the fines structure. The City's consultant recommended the following:

1. Adopting a ticket fine structure that matches the fine amount with the seriousness of the parking offense;
2. Making better use of the enforcement authority of the State's Registry of Motor Vehicles; and
3. More aggressively pursuing collections owed by out-of-state residents.

If these changes were to be implemented, it was the consultant's opinion that an additional \$20 million per year could be collected.

LOCAL AID

Boston has benefitted from statewide efforts to decrease the share property taxes bear of local government finances. For many years, the words "property tax reform"

have really meant "more money for cities and towns from the state". Local officials have lobbied actively for annual increases in local aid, and their pleas have been joined by the academic community, the media, and taxpayers' groups. The politics of the property tax in Massachusetts have led to massive increases in local aid approximately 450 percent from fiscal 1970 to fiscal 1984. Local aid increased 43 percent from fiscal 1980 to fiscal 1984.

Boston's share of total local aid has grown along with the state's commitment of funds to this purpose. Between fiscal 1980 and fiscal 1984, the City's local aid receipts have increased 66%, and its share of total aid has risen from 13% to 15%.

There was a period in the late 1960's and early 1970's when Boston and other cities were penalized by aid programs which focused on aid to education; non-education aid was minimal. During this period, Boston received relatively less local aid per capita than many of its surrounding towns, since education costs comprised a smaller portion of Boston's budget than in the suburbs. After almost a decade of consciousness raising about the financial needs of the state's older cities, the aid emphasis of the 1980s has changed dramatically from the early 1970s. Education aid is still the largest category of the state's local aid programs, but the state's older cities now receive financial assistance from two general municipal aid programs Additional Assistance (\$484 million in fiscal 1984) and Lottery Aid (\$96.8 million).

In fiscal 1984, Boston's total local aid is estimated to be \$295.3 million. Boston's largest local aid receipts will be from Additional Assistance (\$122.7 million) and Chapter 70 school aid (\$96.7 million). The estimate

source is the state's official notice to local assessors issued by the Department of Revenue and nicknamed the cherry sheet. Total local aid is defined here as direct aid (cherry sheet aid), excluding the Urban Redevelopment excise. As used here, Boston's aid share also excludes receipts from retired teachers' pensions (this is classified as indirect aid for all other cities and towns), and the City's share of the racing deeds and room occupancy excises. The cherry sheet includes the amounts the City's assessors from state pass-through taxes: in fiscal 1984 \$18 million from the Urban Redevelopment Corporation excise (Ch. 121A), \$4 million from the City's share of the Deeds and Room Occupancy excises, and \$0.6 million from racing taxes.

There are 27 different aid programs from which Boston will receive local aid in fiscal 1984. Six, totaling \$2.9 million, are described as "reimbursements for loss of taxes". The largest of these, \$1.1 million, is for state owned land; the second largest is a reimbursement to Boston for part of the City's cost of providing property tax exemptions to the elderly.

Ten programs, totaling \$153.4 million, are described as "education distributions and reimbursements". The largest school-related program is Chapter 70 school aid. Other sizeable programs are the state's payments for retired teachers' pensions (\$19.8 million) and the City's school construction projects (\$15.8 million). The format of the cherry sheet has not been revamped in many years, and for historic reasons that are no longer clear, the state's two library aid programs -- in Boston's case, totaling \$4.2 million -- are included as school and education aid.

Only a small amount of local aid is earmarked for specific expenditures. In fiscal 1984, \$6.6 million (2.2%

of local aid) represents "reserves for direct expenditures", or offset items. An example of an aid program that is reserved for direct expenditures is the \$5 million the state provides to Boston for its Equal Education Improvement Fund and the \$0.7 million for "magnet education". In addition, the \$1.1 million distributed from the state's Highway Fund must be used for highway-related purposes. The \$4 million from the Deeds and Room Occupancy Excises is restricted for paying the borrowing costs associated with the Tregor case (and related property tax abatements). All other local aid revenues are distributed to the City without spending restrictions.

Boston's fiscal 1984 local aid total of \$294.7 is \$111.8 million above the City's local aid receipts, (excluding the Urban Redevelopment excise and other pass-through tax revenues), of fiscal 1980, an increase of 61.1%. While education distributions and reimbursements only increased from \$140.6 million to \$153.4 million (9.1%), the City's general municipal aid (Additional Assistance and lottery aid) almost tripled in size, from \$34.4 million to \$135.1 million.

The outlook for continued growth in local aid to Boston is good in spite of the potential for disruption which the fiscal 1983 revaluation presents. The principal factor behind the equalizing aid programs the state has adopted during the past 15 years is the ratio of each locality's equalized (property) valuations per capita relative to the statewide per capita average. The rationale for using this ratio has been to provide equalizing aid that would reduce the differences among the state's cities and towns in the financial resources they have available for the support of local services. The equalized valuations per

capita measure is a guage of relative wealth. Prior to Boston's revaluation, the City's equalized valuations per capita were below the state average. Since equalized valuations are determined biennially in even numbered years, the 1984 figures -- the first since the city's revaluation -- could bring the City's relative property tax wealth close to the state average. It is possible that a post revaluation change in Boston's comparative local financial capacity could reduce its local aid entitlements.

Fortunately for Boston, its revaluation -- with its potential to negatively impact the City's local aid receipts -- comes at a time when a new concept is emerging in the philosophy and construction of local aid formulas. A new measure, one which takes into account cities' and towns' relative expenditure burdens, as well as their relative revenue capacities, is being introduced into 1984 state legislative proposals. The approach is described as an "expenditure-needs" based formula. It is persuasively argued that the composition of some cities' and towns' populations, properties, work force, and geographic characteristics produce heavy demands for local services. Through computer-assisted analyses, it is said that correlations can be established between some localities' high levels of expenditures and certain of their demographic, economic, and geographic characteristics. Examples of these characteristics include population density and average age of residential properties. Boston's above-average level of "expenditure needs", due to factors such as the number of City employees relative to its resident population (i.e., commuters), would result in a heavy weighting in the calculation of a needs-based formula. It is reasonable to assume that the incorporation of an expenditure measure, along with the established ratio measuring relative equalized valuations, could continue to allocate to Boston at least its present share of the state's total local aid.

Local aid increases are also probable given the continued pledge of state leaders, in both the Executive and Legislative branches, to distribute 40% of the state's revenues from its three major growth taxes (income, sales and corporate). State revenues from these three tax sources have been strong even in the recent recession years. The outlook for growth in these taxes is highly favorable and should result in parallel growth in the state's local total aid and in Boston's share.

Federal Revenue Sharing

Congress has continued the nation's federal revenue sharing with local governments in spite of the massive reorganization of many federal grant programs in the opening years of President Reagan's administration. Federal revenue sharing to states did not survive. The last full year of federal revenue sharing to the state was fiscal 1980. When revenue sharing began in the early 1970s, it was a fixed authorization that assured funding for several years. Now the program is subject to annual reconsideration, and perhaps discontinuance. The formula governing the distribution of the revenue among cities and towns has been amended since the early years. The formula was amended to give weight to local tax effort, a change which benefited Boston. Now, in the post-Proposition 2-1/2 era, many cities and towns which had been high tax effort municipalities have been forced to reduce their property tax levies. This could result in reduced revenue sharing receipts for Boston when the formula is next calculated at the close of 1984.

The amount of federal revenue sharing authorized for Boston for federal fiscal year 1984, which ends on September 30, 1984 (the end of the first quarter of the City's

fiscal 1985) is \$18.8 million. The City's share was just recently announced and it is \$0.8 million above the amount the City estimated in setting its tax rate.

NEW REVENUE SOURCES FOR BOSTON

Compared with U.S. cities of comparable, or greater, populations, the composition of Boston's own-source revenues is markedly different. In fiscal 1981, the most recent year for which comparative data is available, 79 percent of Boston's revenues were from property taxes compared with a national average of 31 percent. There can be no question about the fact that this heavy reliance has been reduced in the intervening years -- due primarily to property tax reductions required by Proposition 2-1/2 and increases in the Commonwealth's local aid -- but the City's unique position of having no other major revenue sources has not changed. (See Table 5, Overview of Boston's Revenues.)

For the average U.S. city of population 300,000 or above, 15 percent of the city's revenues came from income taxes (FY 1981), 11 percent from sales taxes, 4 percent from public utility excises and 6 percent from other miscellaneous tax sources. Non-property tax resources are the principal means by which other major cities have a lower reliance on property taxes than Boston. It is easy to respond to these statistics with a reflexive cry for "Reform!," but in a state known for its activist citizenry -- where these numbers, or ones like them, have been common knowledge for many years -- there has been no significant change. Rather than hand wringing, it may be better first to look at the reasons why the status quo is so resistant to change.

While adoption of other taxes would be one way for Boston to collect additional revenues, there are also possibilities for new non-tax revenue sources and for increases in existing non-tax revenues. The third category of possible change is in the City's fiscal relations with the Commonwealth. The most commonly proposed change is for substantially increased local aid; but there are other possibilities for financial relief -- through the assumption by the state of local costs and through the revision of state and district assessments. Unfortunately, as desirable as each possibility may be from the viewpoint of Boston's revenues, each has its drawbacks. If discovery of the resource were all that mattered, Boston would have long ago been a rich city. Instead, the situation is one in which least objectionable solutions must be identified, and pursued, if the City's revenue base is to be diversified.

Alternative Taxes

The City already collects tax revenues from three sources other than property. The largest non-property tax source is the Urban Redevelopment Corporation excise, also known as Chapter 121A. This excise is imposed in lieu of property taxes on qualifying properties requesting this tax status. The tax was adopted in 1960 to accommodate the Prudential Company's needs for favorable tax treatment, and certainty, before agreeing to construct the City's first, major post-WWII downtown development project. During the five years fiscal 1980-1984, the City's receipts from this excise increased from \$11.1 million to 18 million. The rate of increase is substantial; however, the gain may well be offset by the consequent loss in property tax revenues from new developments that gained tax exempt status through qualifying instead for liability for the Urban Redevelopment excise.

The motor vehicle excise, also considered to be a tax in lieu of the property tax (the personal property portion), will produce \$7.5 million in fiscal 1984 (\$8.9 million below fiscal 1980, pre-Proposition 2-1/2 collections). The third non-property tax source is Boston's share of the state's excise on dog and horse track racing. This is a recently authorized distribution, resulting in fiscal 1983 revenues of \$0.6 million.

Since the City's current non-property taxes produce relatively small amounts of revenue (a combined 30 percent of the total) there is still a need for alternative taxes. The following are five of the most frequently proposed ideas.

Local Income Tax--Some cities have a piggy-back (to their state's) local income tax. The objections to the implementation of such a tax in Boston are sufficiently substantial to cause most persons to be willing to move along to the next idea; the Massachusetts income tax is uniquely constructed out of the state's property tax laws, and is therefore subject to the constitutional requirement for uniformity in its administration. This means that citizens may not be subject to a tax in one tax jurisdiction that is not imposed on citizens in another. A uniformly imposed income tax would have to be authorized for all cities and towns. If this were to occur, it would limit the potential for growth in the state's personal income tax. Some towns have residents with high personal incomes, others with below-average. The income tax resource would tend to benefit those localities which already have above-average fiscal capabilities, but the goal of equalizing the state's total financial resources would not be met. The benefit to the City, of the state's being the collector of income tax revenues, is that the equivalent of 40 percent of their growth is distributed back to localities as local aid -- and Boston receives a significant share of this distribution.

A recent proposal would refine the local income tax approach by authorizing localities to impose this tax and at the same time cutting the state's use of this tax by a significant cut in the rates. The second step of this proposal would then call for a cut in local aid to cities and towns determined to be sufficiently wealthy to sustain their own financial affairs. The third step would then target the scarcer state dollars to only the neediest localities. This, theoretically, could meet the criteria of equalization, but it would not meet the constitutional requirements for uniformity. An amendment to the state's constitution would be required, and recent history has repeatedly demonstrated that Massachusetts voters are not receptive to opening up the constitution for proposals that may increase the use of the income tax.

Payroll Excise--It is suggested that one way around the constitutional restrictions on a local income tax would be for Boston to instead have a payroll excise. The excise would be imposed on Boston employers using a formula that would (probably) reflect the numbers of employees and the level of their wages and salaries. The idea behind the payroll excise is that the City's services are burdened by commuters -- persons who earn their livelihoods in the city, who have the advantages of its protective services, parks and streets, yet who only pay for these services in the suburban towns in which their homes are located.

There may be constitutional problems with even this proposal, since there is a constitutional provision requiring excises to be "reasonable." Excises are authorized on "any produce, goods, wares, merchandise, and commodities, whatsoever, brought into, produced, manufactured, or being within" the Commonwealth. It is far from clear just how a payroll tax would fit into this definition, and not be viewed instead as a back-door income tax.

Another problem with a payroll excise, a problem which would also be associated with a local income tax if it were unique with Boston, is that the economic consequence of such a tax could well be business flight. The City's geographic boundaries are so narrow -- between the ocean to the east and surrounding cities and town to the north, west, and south -- that it would be fairly easy for a business to move away from Boston to a municipality that does not impose such a tax. The value of office buildings with high vacancy rates could quickly diminish, pulling the city's property tax revenues down with them. In all cities, even those with local income taxes, it is the property tax that is the most effective generator of local tax revenues. A city's property tax base must be protected at all costs -- even when it means rejecting a useful source of new revenues.

Local sales tax--The most recently adopted of the state's major taxes is its sales tax (1966). When the state finally resorted to the use of this tax, which had not been used earlier because it was considered too regressive, the definition of what was considered to be taxable was constructed more narrowly than in almost all other states. Comparative data for fiscal 1981 indicates that only two states collected fewer dollars per capita for each one percent of tax rate. The tax is often described as being under-utilized in this state, a characteristic that enhances its attractiveness for local use.

A locally imposed sales tax is the most commonly imposed municipal tax, besides the property tax. Local governments in the neighboring state of Connecticut have long relied on this revenue source. A local sales tax is generally administered as a piggy-back tax on the state's sales tax, with the state handling its administration. There is one significant difference, however, between how

such a locally imposed tax would operate in Boston and in the nation's other major cities: the City would be uniquely vulnerable to the exodus of shoppers. In Boston, residents and commuters could easily shift their shopping to one of the many malls located on Route 128, or to shopping centers of the surrounding cities and towns. Only the poor would have no choice. In other states, where major cities benefit from a locally imposed sales tax, the tax is frequently county-wide and the city is surrounded by a sizable buffer area where there is no tax differential. In the Mid and Far West, there are also sizeable distances between taxing districts. It is not easy to comparison-shop between Tulsa and Oklahoma City. Boston simply does not have the luxury of distance between potentially competitive tax jurisdictions.

Parking Excise--At the time of the City's Tregor crisis, one of the chief proposals for paying back the bonds the City anticipated issuing was a city parking excise. The excise would be imposed as a percentage of the parking fee. Available documentation suggests a rate of 20 percent, would yield an estimated \$13 to \$15 in revenues.

This proposal was rejected by non-Boston state legislators who were unwilling to vote for a tax that their constituents would have to pay. There were reasons presented for the tax besides its revenue benefit. It was argued that commuters should be encouraged to take public transportation and to leave their cars outside of Boston, with its crowded streets. It was also pointed out at the time, although with no evidence, that such an excise would be subject to collection problems since parking lots and garages are cash operations that even owners have difficulty controlling.

Local Room Occupancy Excise--Boston now benefits from the room occupancy excise (hotel tax) by receiving the amounts the state collects from new (post-August 1981) hotel rooms located within the city. This authorization was made in conjunction with the Tregor case, and is scheduled to expire in 1992 when the debt service costs associated with this litigation are paid off.

The idea of Boston's imposing an additional tax on hotel rooms is an attractive one since the tax is generally considered to be an export tax -- one that is paid by persons from outside the state. It is also appealing since hotel rooms are increasing in the city at such a rapid rate. Boston's Official Statement (January 1983) projects an increase in hotel/motel rooms of over 230 percent from 1983 through 1986. Hotel development is a significant part of the city's economic growth.

If Boston were authorized the use of a piggy-back room occupancy tax (on top of the state's current 5.7 percent rate on all of its hotel rooms -- not just those added since 1981 -- this tax could raise approximately \$8.0 million if an 8 percent rate were imposed, \$12 million with a 9 percent rate, and \$16 million with a 10 percent rate. These estimates are based on current state revenue levels from this tax, i.e., what Boston would collect if the tax were already in place. The estimates do not include projections of future growth. If it develops, as all hope, that there are high occupancy rates for all of the new hotel space just recently completed, or under construction, then the revenues from this tax would exceed these estimates.

Departmental Revenues

It used to be that those who most vigorously opposed taxes would propose, if pressed for alternatives, increases in nontax revenues -- fees for services, licenses, penalties, and other categories of charges for services or privileges. (This group of revenue sources are also called departmental revenues.) Unfortunately, the willingness of tax critics to promote these alternative revenue sources may be drawing to a close. One of the consequences of Proposition 2-1/2 has been increasing reliance on these revenue sources since they are outside that law's restrictions. Now, it is not unusual to hear complaints that proposed increases in departmental revenues are simply new taxes. It would be a serious loss for Boston (and for other cities towns and the state) if these negative views prevail since appropriate levels of charges for public services -- especially when they are directly associated with benefits to particular individuals or institutions -- are reasonable recoveries of costs which a government should expect to receive. Boston has not overlooked these revenue possibilities in its struggle to make ends meet during the fiscal years it was required to reduce its property taxes, and it cannot overlook these possibilities in the future.

Boston is restricted by the terms of its own governing statutes not to collect revenues in excess of the cost of providing the services. Recent changes in charges have reportedly brought charges close to, but still below, the recovery of full costs. One of the principal costs which have not been fully included have been those associated with employees' fringe benefits (health insurance and pensions). Although it is reasonable to propose that the city proceed to recalculate programmatic costs, the administrative costs of such an analysis should be considered. If

such a revision is undertaken, it would be wise if it were accompanied with a plan for making future calculations routine.

State Assumption of City Costs

Pension Costs--The most serious financial problem facing Boston, now that it has met the goal of reducing its property taxes to the mandatory effective rate of 2.5 percent of its assessed valuations, is that the City's fixed costs are increasing at such a steep rate that they will absorb much if not all of the allowable 2.5 percent levy increase. Chief among Boston's heavy, unavoidable costs are its payments for pensions of retired city employees. Many years ago, the state assumed responsibility for all retired teachers pensions, but the pensions of the City's general municipal employees must be fully covered out of the City's annual operating budget. Boston is joined by most of the state's cities and towns in the bind of limited revenue growth and increasing fixed pension costs. A Senate Committee on Ways and Means study described these problems as "a second shock wave" after Proposition 2-1/2:

"Under Proposition 2-1/2 tax levies cannot increase more than 2.5 percent a year. In comparison, between FY 1983 and FY 1990 the pay-as-you-go pension contribution is expected to increase at an annual rate of 8.6 percent...cities and towns eventually will have no new locally-generated revenues available for anything but pension cost increases". (Senate Ways and Means budget document, FY 1984)

The Senate study cited Boston as one of the state's municipalities with the bleakest projections of pension costs relative to tax levy growth.

It is generally recognized that the cost to the state of assuming all local, non-education employee pensions -- as it has teachers' pensions -- would exceed revenue capacity. Instead, it is proposed that the state begin to assume incremental costs, or to begin to pay for a portion of these pension costs through a new state aid program. A controversial aspect of the pension situation is the extent to which there has been abuse in pensions being granted on grounds of disability. This has reportedly magnified normal pension cost growth. The proponents of state aid for local pension costs would exclude this portion of the cost base, at least from an agreed-upon current date forward.

The present local aid for pensions, provided solely for teachers, favors suburban cities and towns over the state's older cities. In Boston, the report states, "only an estimated 20 percent of the City's pension liabilities are teacher-related. In the richer towns, by contrast, over one-half of municipal employees are likely to be teachers, and teacher pension liabilities constitute a much higher proportion than Boston's 20 percent." This argument could be useful in persuading state legislators that partial state assumption of local pension costs would be in the mainstream of the state's traditional concern about the equalization of financial resources among the state's cities and towns.

MBTA Assessments--In fiscal 1984, the charge to Boston for MBTA district assessments is \$40.1 million; the City's share of total MBTA assessments is 41.8 percent. The reason for this disproportionate assessment (there are 79 cities and towns in the District) is the factor on which the assessment formula's calculations are based -- passenger counts. As the District member with the highest number of embarkations, Boston's share of the costs is the highest.

This, of course, is because Boston -- as the economic center of the metropolitan area -- is the destination of most passengers. In the morning, passengers may embark on buses or trains in several dozen cities and towns, but in the evening they get back on board in Boston.

Few would dispute the argument that since a good public transportation system is of economic benefit to an entire metropolitan area, the residents of the cities and towns surrounding Boston benefit equally -- with the City's residents -- from this facility. Why then, should Boston's property taxes be disproportionately burdened by this expense? The answers are not satisfactory: 1) thus, it has always been, and 2) there is no way to construct an assessment formula based on use that does not result in the same distortion.

There are two possibilities for correcting this problem. The state could assume 100 percent of MBTA assessments (in fiscal 1984 an amount just under \$100 million). The state already pays a large share of the District's costs -- \$92.7 million for the operating deficit, \$56.7 million for debt service and an additional \$4.0 million for the reimbursement of District member cities and towns with no service facilities.

The obstacle to state assumption of MBTA assessments, besides the cost to the state, is that it would mean that Massachusetts residents in all parts of the state would be paying for the Boston area's public transportation. Not only do some of these areas have public transit systems of their own which could use state assistance, it is difficult to establish the extent to which state residents who live in the Berkshires or the Cape, for example, can be said to benefit from the Boston area's public transportation.

An alternative approach to providing Boston some needed relief from its heavy share of MBTA financing involves revising the assessment formula. The assumption that local benefit can only be measured by passenger count is extremely limited and overlooks the contribution a public transportation system makes to the economic vitality of a region.

The property values of member cities and towns are at least indirectly linked to the transportation facilities available to local residents. Nobody questions the legitimacy of financing state highways from the motor fuels excise. A formula which uses economic measures of the District's members can be constructed. The state's biennially reported equalized valuations, which have been subject to criticism due to the lack of Department of Revenue staffing to carry out as thorough a research program as would be desired, are now coming into their own as an acceptable process. The change is due to the implementation of revaluations in virtually all of the cities and towns and to the strengthened authority of the Commissioner to enforce property tax laws. This measure could again be incorporated into an assessment formula (this is the measure used for county assessments for all of the state's county costs, except Suffolk). Other possible factors could be population, the frequency of transit service, geographic distance from the city and the portion of the work force that is employed.

The construction of local aid and assessment formulas requires a formidable amount of research in order to acquire accurate data and test the results of alternative combinations of factors. However, the greatest obstacle is not the design of a formula but resistance to change. Clearly, a system in which Boston pays over 40 percent of the charges has been of considerable financial benefit to

the other members of the District. With the limitations of Proposition 2-1/2, there could be serious financial problems for other localities from an increase in assessments. A corollary provision could be proposed, that the cost impact of the formula revision would be exempt from the provisions of the Proposition. Member towns whose assessments would be increased would be able to pay for the increase from revenues raised outside the levy limit. Such a proposal would have its own opponents, those who believe no change (or "loophole") should occur without voter referendum approval; but, there is at least the possibility that the reasonableness of this change could prevail.

County Correctional Institutions--In fiscal 1980, the state assumed the full cost and administration of the county court system. The shift from the county to the state was accomplished to provide financial relief to local governments but also to bring about changes in the administration of the courts. A similar dual purpose would be achieved through state assumption of county costs of correctional institutions. Since Boston carries 100 percent of Suffolk county's costs -- for all services -- the expenses of the Charles Street Jail and the Deer Island House of Corrections must be fully paid by the City. As the state's largest city, with a higher percentage of its population transient than any other Massachusetts city or town, the above-average costs associated with law enforcement are paid entirely by Boston.

For fiscal 1984, Boston has appropriated \$17.5 million for county expenditures. Most of this cost, approximately \$14 million, is for the correctional institutions.

MDC Parks--Through a fiscal 1984 assessment of \$4.3 million, Boston will be paying 22 percent of the MDC

Parks' total assessments. The District covers boulevards, parks, golf courses, skating rinks, swimming pools, open spaces and other recreational facilities located in 37 member cities and towns. The counterpart to the MDC Parks District for the rest of the state is the State Recreational Areas Fund. In recent years there have been perennial proposals for the state to absorb these functions into the state's Secretariat of Environmental Affairs. Some of the activities, it is argued, could be more efficiently performed on a centralized basis.

REVENUE RECOMMENDATIONS

Property Taxes

The backbone of Boston's revenues is its property tax. The City should build on its strengths:

- o the extraordinary development of downtown properties, office buildings, hotels, condominiums, retail and cultural facilities, and
- o the beginnings of a modern computer-assisted appraisal program developed during the revaluation process.

Recommendation #1--The City should commit substantial funds to the development of a computer-assisted assessment system for the management of annual readjustments of property valuations in order to take advantage of Boston's economic growth.

Time is a critical factor in modernizing the City's assessing operations. If Boston is to take advantage of the substantial amount (over \$1 billion) of new construction

scheduled to be completed during 1984 and on the tax listings for fiscal 1986, it is essential for the City Assessor to have the capacity to implement uniform and full valuations on all existing properties. The Commissioner of Revenue has made it clear that without this condition being met, the City's levy increase for fiscal year 1986 could be seriously imperiled.

Recommendation #2--The City should propose legislation to authorize the assessors of all Massachusetts cities and towns to enforce requests to taxpayers for the necessary information for valuing commercial and industrial properties.

During Boston's revaluation, a highly-praised system was developed for valuing commercial and industrial properties. More than other aspects of the 1983 revaluation, the computer-assisted program for the appraisal of Boston's commercial properties comes closest to meeting the requirements of a well administered assessor's office. The system is fine. What is lacking is adequate, current information on the City's economic rents. The current statutory authority for the assessors to collect such information has no enforcement provisions. In other states it is standard for such an authorization to be granted. In Massachusetts, commercial and industrial properties are routinely undervalued due to the lack of necessary information for the proper administration of this tax.

Recommendation #3--The City should submit legislation to authorize a parking exise.

It is to the aesthetic, and economic, advantage of Boston to discourage commuters from driving into the city. Boston is said to have one of the nation's best metropolitan

area transportation networks. The transit system would benefit from increased ridership; the city would benefit from reduced vehicular traffic.

Since Boston has initiated a program of selling its garages, a parking excise could substitute for -- indeed surpass -- the revenue stream of garage rentals. The City could collect an estimated \$13 million from a 15 percent excise.

Recommendation #4--The City should submit legislation to authorize a local piggy-back tax onto the state's room occupancy tax for all existing hotel room space (not just the post-1981 rooms, as is currently authorized on a short-term basis for the repayment of the Tregor bonds).

The burden of this tax would primarily be paid by out-of-state residents. A large portion of the City's hotel occupancy is expected to relate to business conferences and conventions. The imposition of an additional 2 to 3 percent to the current 5.7 percent tax rate, would not detract from hotel demand. The demand for Boston hotel space is a product of the City's efforts to rebuild its downtown areas. The City's attractions have gained a national reputation. It is only fitting that Boston's revenues should benefit directly from these efforts and accomplishments.

The City could collect an estimated \$15 million from a 9 percent excise, an estimate based in part on the projected growth of Boston's new hotel space.

Departmental Revenues

Recommendation #1--The Mayor should request key City budget and financial administrators to initiate a review of the level of fees, licenses, permits, fines, and other charges for services relative to the costs of providing the services, privileges, or law enforcement required. In the process of reviewing the levels of the City's departmental revenues, administrators should attempt to institutionalize the process of periodic increases, so that future increases could be more routinely implemented.

The most recent increase in the levels of charges was adopted in 1981. The costs of government -- particularly wages, salaries and fringe benefits -- have increased substantially in the intervening years. This increase should be considered in the charges imposed. Furthermore, it has been indicated that the full costs of fringe benefits were not included in the 1981 cost allocations.

Recommendation #2--The collection system of the City's many (approximately 300 -- different fees, licenses, permits and other charges) should be located in one central collection office, an office with reporting requirements and enforcement authority.

The relatively small sums involved with some of the City's authorized departmental revenues tend to lead to a lower priority of attention being given to their administration. There are "slippage" possibilities, but the more common problem probably is that administrators of agencies responsible for the collection of departmental revenues find revenue collection and enforcement an unpleasant aspect of their work and are reluctant to suggest fee level increases which only make their own work harder. A collection review

study could consider possible incentives for improved fees management as well as a new system for collections.

STATE ASSUMPTION OF COSTS

Recommendation #1--The state should assume full costs of assessments for the MDC Parks District.

It is unreasonable for Boston to pay over 20 percent of the total assessments for the Parks district when there are 37 member cities and towns. The member cities and towns have no direct voice in the appropriations of the MDC Parks District. The District's budget is approved by the state legislature and the Governor, as part of the state budget. Some of the District's functions overlap with those of other state agencies. These inefficiencies could be more effectively corrected if the District were dissolved and its responsibilities assigned to other state agencies.

The state assumption of MDC Parks Districts assessments would save Boston \$4 million, based on the level of the fiscal 1984 assessment.

Recommendation #2--The state should assume a portion of the City's pension costs, in an indirect local aid program which would parallel the current program which fully funds retired teachers' pensions.

The present local aid program, which provides pension benefits only for teachers, disproportionately benefits the wealthier suburbs since in these communities the education budget is a far larger share of total local expenditures than it is for the state's older cities. It is reasonable that state assumption would only be partial and

that a distinction would be made between regular pension obligations and those granted for disability, since there is so much inter-city variance in the way in which this aspect of the pension system is administered.

State assumption of a portion of the city's pension costs would produce a double benefit for the City since its heavy, unfunded liability for future pension payments presents a serious financial detraction to the bond market. The assurance that the state is assisting the City in meeting this obligation could produce lower interest rates on Boston's new debt issues.

It is assumed that the City's first fiscal year share of such a partial-cost assumption program would be \$10 million.

REVISION OF MBTA DISTRICT ASSESSMENT FORMULA

Recommendations #1--Legislation should be submitted revising the formula for calculating the MBTA District assessments. The revised formula should discontinue the use of the passenger count factor, instead substituting measures reflecting the relative property wealth of the member communities, the percentage of local residents in the work force, a municipality's share of the District's total population, and any other appropriate factors that would measure the benefit a regional transportation system brings to its member localities.

The present disproportionate share which Boston bears of MBTA assessments (41 percent) is unreasonable considering the area-wide benefit of the system. A revision in the formula should reduce Boston's present payments from the

fiscal 1984 level of \$40 million at least in half, for a savings to the City of \$20 million.

Recommendation #2--Legislation should be submitted to amend Proposition 2-1/2 to exclude from the calculation of the annual levy increase any increases in local MBTA assessments due to the revision of the assessment formula.

In order to enable other cities and towns in the MBTA District to absorb increased assessment costs, it would be necessary to amend Proposition 2-1/2 to exclude assessment increases resulting from a corrective change in the formula from the annual calculation of the 2.5 percent annual levy increase. It is politically practical, and reasonable, that a corrective change in the MBTA assessment formula should be accompanied with a provision for excluding the additional costs such a change would impose on other cities and towns. The amount to be excluded would be relatively small for any one city or town. The financial relief it is estimated Boston would receive from this change is \$20 million. There are 78 cities and towns in the MBTA District, besides Boston, among which the \$20 million increase would be shared.

CITY OF BOSTON

Expenditure Controls

1983-1984
ACTIVITY BUDGET

ADMINISTRATIVE SERVICES DEPARTMENT

CITY OF BOSTON

Expenditure Controls

1983-1984
ACTIVITY BUDGET

ADMINISTRATIVE SERVICES DEPARTMENT

CITY OF BOSTON

Expenditure Controls

1983-1984
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ADMINISTRATIVE SERVICES DEPARTMENT

CITY OF BOSTON

Expenditure Controls

1983-1984
ACTIVITY BUDGET

ADMINISTRATIVE SERVICES DEPARTMENT

BOSTON'S FISCAL STATE

By failing to plan and control its budget, Boston will once again have an Operating Appropriation Deficit for FY 1984. The Operating Appropriation includes all City, County and School Department expenditures, and represents that portion of the budget that is "controllable" as opposed to fixed in nature.

The following table, based on information derived from budget reports and discussions, shows the basis for a projection of a \$37.2 million Operating Appropriation deficit.

TABLE 1

CITY OF BOSTON
PROJECTED OPERATING APPROPRIATION DEFICIT
FY 1984 (\$ in 000's)

	<u>Appropriation</u>	<u>Projected Expenditures</u>	<u>Surplus/ (Deficit)</u>
General Government	\$128.5	\$133.8	\$(5.1)
Public Works	39.6	41.5	(2.1)
Public Safety	120.3	118.7	1.6
Parks & Recreation	8.1	8.3	(0.2)
Health & Hospitals	106.2	106.2	--
Schools	229.7	236.0	(6.3)
County	<u>17.8</u>	<u>18.5</u>	<u>(0.7)</u>
Subtotal	\$650.2	\$663.0	(12.8)
Projected Collective Bargaining Costs			<u>(24.4)</u>
Projected Operational Appropriations			
Deficit FY 1984			<u><u>\$(37.2)</u></u>

The deficit projection for City departments is based on expenditures to date projected through the end of the fiscal year. The deficit for schools and the collective

bargaining costs assumes the acceptance of the Boston Teachers Union contract and anticipated settlement with the remaining City bargaining units at substantially similar levels. The total projected cost of collective bargaining in FY 1984 is \$30.7 million, including \$6.3 million reflected in the School Department figure.

This deficit does not take into account possible revenue deficits or surpluses, including those resulting from the sale of municipal garages. The following table outlines projected revenues versus budgeted for FY 1984.

TABLE 2
CITY OF BOSTON
PROJECTED REVENUE SURPLUS DEFICIT
FY 1984 (\$ in 000's)

	<u>Budgeted</u>	<u>Projected</u>	<u>Surplus/ (Deficit)</u>
Gross Tax Levy	\$333.3	\$333.3	\$ --
Departmental	59.4	56.8	(2.6)
Parking & Fines	27.6	27.8	.2
Health & Hospitals	113.3	108.1	(5.2)
Motor Vehicle Excise	7.4	9.0	1.6
State Aid	306.7	313.3	6.6
Federal Revenue Sharing	18.5	18.8	.3
Sales of City Assets	18.5	18.5	--
Transfers	<u>53.6</u>	<u>53.6</u>	<u>--</u>
TOTAL	<u>\$938.3</u>	<u>\$939.2</u>	<u>\$.9</u>

The City originally anticipated that the sale of garages would generate between \$54 and \$57 million and to be applied as follows:

Balance the budget	\$18.5
Latin School repairs	35.5
Housing Transit Fund	3.0
	57.0

It now anticipates that the sales could ultimately net approximately \$63.0 million, thereby giving the City

additional revenues of about \$6 million which could offset budget deficits. However, only one of the sales had been completed as of January 1, 1984. This sale, the Government Center garage, has subsequently been held up by the federal government, due to a question over development rights. The remaining garages have yet to be declared excess property and approved for sale. It is anticipated that if the sales are completed, the revenues generated will be as follows:

Government Center	\$22,000,000
Fort Hill	25,000,000
St. James	7,766,400
Kilby Street	<u>8,000,000</u>
TOTAL	<u>\$62,766,400</u>

These revenues can be applied in a variety of ways with the exception of certain restrictions as to the amount that must go to capital projects. The maximum amount available for current year deficits if all garages are sold is \$42 million.

After taking into account the projected revenue Surplus of \$900,000, the City will be faced with a net deficit of \$36.3 million. Historically the City would raise this deficit by adjusting the subsequent year's tax rate. However, under Proposition 2-1/2, the total property tax level cannot exceed a certain amount. Therefore, succeeding year appropriations for deficits incurred in a prior fiscal year have the effect of reducing dollar-for-dollar the amount available for spending on current agency operations. It is time for the City to stop forcing appropriation deficits caused by the cycle of funding prior year's deficits.

The severity of the impact of the deficit for any given year depends upon the status of the various reserves that are available to fund the shortfall.

Overlay Reserves

Overlay reserves fall into two categories: Current Overlay reserves and Overlay Deficit Raised reserves. Current Overlay reserves represent an amount established annually, as a part of the tax rate calculation, which is an estimate of the current fiscal year taxes to be abated. This amount must be no less than 5% of the Gross Tax Levy, minus the Current Overlay.

Overlay Deficit Raised, on the other hand, theoretically represents an amount expended during the year for prior year abatements that exceeded the prior year's Current Overlay reserve. The prior administration initiated a practice of appropriating the Overlay Deficit Raised account without a corresponding expenditure during the year. This had the effect of establishing non-specific Overlay Deficit Raised reserves. As indicated in Appendix A for FY 1981 and 1982, the administration provided for non-specific Overlay reserves of \$10 million and \$40 million, respectfully. In 1983 they liquidated \$15.4 million and used \$19.6 million as revenues to balance the budget. An additional non-specific Overlay Deficit of \$5.6 million was raised in fiscal 1984 leaving a balance of \$20.6 million.

There also remain unliquidated (unspent) balances of \$20.8, \$15.9 and \$7.0 million of original Current Year Overlays for specific years 1984, 1983 and 1982, respectively. Therefore, the total overlay balance available which can be applied to all abatements granted subsequent to July 1, 1984 is \$64.3 million.

Reserve for Encumbrances

During the year-end process of closing the City books, certain current period statutory liabilities, requiring disbursement in future fiscal periods, are established. A reasonable determination of dollar value is made and an encumbrance is established. An encumbrance is an accounting device which sets aside monies for the payment of bills or obligations which are anticipated, but which are not yet due for actual payment. The unliquidated (unspent) encumbrances balance from year-end fiscal 1983 are as follows:

TABLE 3

CITY OF BOSTON
ANALYSIS OF UNLIQUIDATED ENCUMBRANCES
FY 1983 AND PRIOR
(in 000's)

<u>Classification</u>	<u>City & County</u>	<u>Schools</u>	<u>DH&H</u>	<u>Total</u>
Payroll	\$ 7,990		\$1,635	\$ 9,625
Edison interest	4,134			4,134
Water & Sewer items	300		482	782
BRA	2,438			2,438
Non-personal		3,588		3,588
Other	<u>9,610</u>	<u>6,288</u>	<u>1,140</u>	<u>17,038</u>
TOTAL	<u>\$24,472</u>	<u>\$9,876</u>	<u>\$3,257</u>	<u>\$37,605</u>

Payroll - Represents amounts identified by department heads and the Office of Labor Relations for collective bargaining, longevity, pending retroactive pay raises, and unpaid overtime owed to employees. Of the \$9.6 million remaining in the account approximately \$8.1 million is available to offset deficits due to collective bargaining.

Edison Interest - There is litigation pending to determine if the City owes Edison interest on bills from prior fiscal years. It would not be improper for the City to liquidate this reserve and encumber the funds in the

Judgment and Claims account in the year in which the Court judgment (if not favorable) is rendered.

Water and Sewer - This figure includes amounts owed by the City of Boston Water and Sewer Commission as of June 30, 1983. Given the substantial balance due to the City from BWSC, the Auditor should establish a monitoring procedure to review payments to the BWSC.

Boston Redevelopment Authority (BRA) - This represents amounts reserved for payments to the BRA. Historically, the lack of expenditure controls allowed the BRA to spend the balance of unliquidated encumbrances. Proper controls could ensure that \$1 million of this amount would be available to reduce FY 1984 overspending.

Non-Personnel - This represents the balance of the School Department reserve request for non-personnel items. Historically, as in the case of the BRA encumbrance, this entire amount has been spent if made available. Tightened budget controls should result in a savings of up to \$2 million in this account.

Other - This account covers Contracts, Purchase Orders, Reserve Requests and Service and other items. Reserve requests represent another area in which stronger budgetary controls should be established to force department heads to live within their current budgets. Such measures could generate savings of approximately \$2.1 million.

In December, the Supervisor of Finance for the City Council issued a memorandum itemizing various reserves which were outstanding after November 1983, these figures are included in the discussion above. A further analysis and update of this memo appears in Appendix B.

Reserve for Interfund Contingencies

An interfund contingency account of \$2,184,000 has been established for potential disallowed costs in federal grant accounts.

In the era of Proposition 2-1/2 it is imperative that the City institute a realistic resource allocation program. The constant carryover of prior year's deficits restricts the ability of the City to project realistic spending levels and maintain a balanced budget. With a new administration and a new attitude toward fiscal affairs, there is an opportunity for the City to apply all available reserves to the current year's deficit, thus starting with a clean slate. Some of these reserves cannot be used directly to offset the deficit. They can be utilized, however, to reduce the deficit's impact on subsequent years. The reserve for encumbrances, for example, may be partially applied to reduce the effect of collective bargaining cost increases resulting from this spring's contract negotiations. Similarly, the Overlay Deficit may be released next year and made available as an additional revenue source, thereby reducing the impact of the prior year's deficit. The practical effect being to make such funds available to offset the deficit. An analysis of the net effect is as follows:

TABLE 4

CITY OF BOSTON
ANALYSIS OF DEFICIT IMPACT
FY 1984 (\$ in 000's)

Projected Surpluses (Deficit)		
Revenue	\$.9	
Expenditures	<u>(37.2)</u>	
Net Deficit		\$(36.3)
Reserves		
Overlay Reserve	20.6	
Unliquidated Encumbrances	17.3	
Reserve For Interfund		
Contingencies	<u>2.5</u>	
Reserves	<u>40.4</u>	
Applied Reserves		<u>36.3</u>
Effective Net Deficit		\$ <u>-0-</u>

RECOMMENDATIONS: FY 1984

Sale of Garages - Although the concept of selling capital assets to finance current operations is a poor one, it would be devastating to stop this process at this stage. The Administration should continue this limited program expeditiously to ensure available revenues for fiscal 1984.

Immediate Budget Control - To the extent possible with the current control systems, the Administration must tighten the purse strings. Such steps as eliminating non-essential agencies, selectively cutting program levels and selectively filling personnel vacancies will go a long way to reducing costs. In addition, a review of all major vendor contracts and alternatives could also serve to reduce the deficit.

The tendency, when confronted with a fiscal problem, is to panic and impose either a hiring freeze, across-the-board cuts, or both. While the current dollar savings will be evident immediately, the real social and economic impact may not surface for years. Across the board cuts and hiring freezes are indiscriminate by their nature and therefore do not distinguish between good and bad programs. They do not determine necessary service levels nor do they determine where resources are utilized effectively and where they are not. They can cause serious harm to certain programs. Typically, this harm later will require excessive amounts of resources to rectify.

RECOMMENDATIONS: FY 1985

It is beyond the scope of this section to do a detailed review of FY 1985. However, unless the Administration implements a program to improve both the budget process and expenditure controls, it will soon find itself caught in the continued cycle of budget deficits initiated by the prior administration (see Appendix C). The next two sections discuss some of the reasons for the recurring problem of budget deficits and some of the solutions to it.

The Budget Process: An Underutilized Tool for Expenditure Control

One of the best indications of the state of the City's budget control process is evidenced by Coopers & Lybrand's management letter of 1979 which stated:

"To properly manage the City's fiscal affairs, a comprehensive plan of checks and balances must exist to monitor the effectiveness of controls over the flow

of financial resources and information. We feel such a plan can and should be developed based on the City's budget process. Such process, both by design and practice, should be the mechanism by which controls are brought to bear. We feel the City's budget process has not been as effectively utilized for that purpose as it should be."

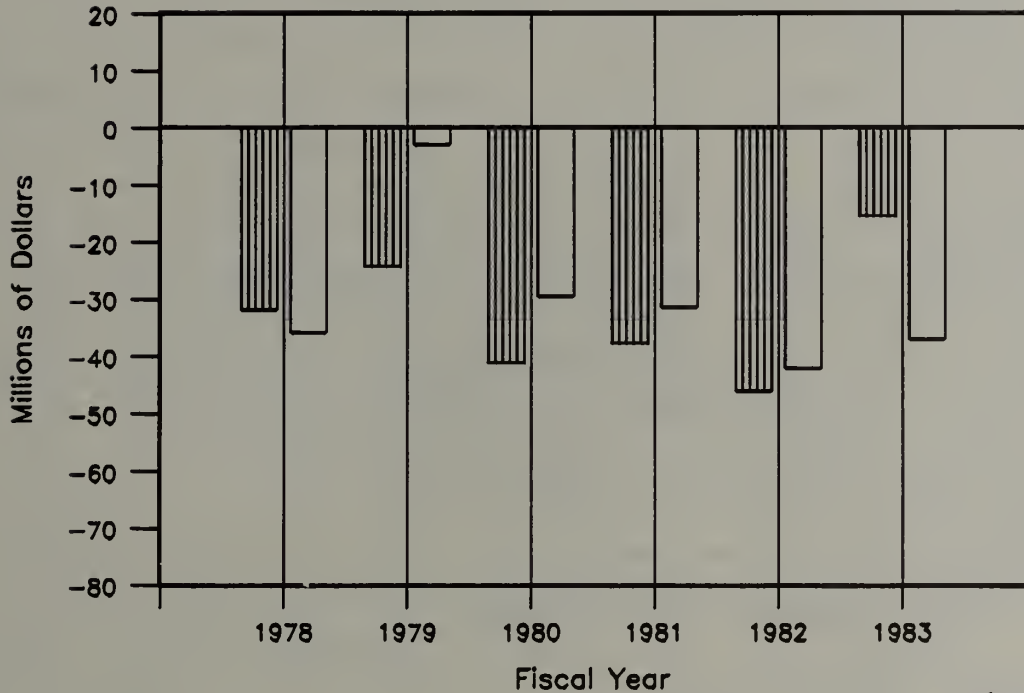
The fiscal 1985 budget process is at hand: yet no controls exist nor are they planned for the near future. The lack of a professional budget process leaves the new Administration in the position of being unable to assert control over the balance of FY 1984 spending. Consistent with the past, the City will end the year with a significant Operating Appropriation deficit, as noted above.

The pressing need for these controls is illustrated by the recurring operating appropriation deficits. As Display 1 indicates, for each of the past six fiscal years, the City has incurred such deficits in excess of \$10 million. These deficits represent a substantial proportion of the total deficit incurred by the city each year.



A government's annual operating budget is a potentially powerful tool for priority setting and for expenditure control. Boston's present budgetary process, in contrast, fails to focus the City's now-limited resources on the provision of essential, "core" city services (police, fire, public works and schools). Despite substantial reforms mandated by the State Legislature and the City Budget Department, the current process has a track record of producing unrealistically low appropriations for these core City services, virtually guaranteeing large operating appropriation deficits in key agencies. At the same time, the process has failed to identify and eliminate non-essential programs.

DISPLAY I

City of Boston General Fund Surplus/Deficit FY 1978 – FY 1983



Display 1

-  Operating Appropriations Surplus/Deficit
-  General Fund Surplus/Deficit

Despite its importance, the City's budgetary process is a closed and incomprehensible ritual. This narrative presents the current process from the initial preparation of agency budget requests to final allotment and expenditure of appropriate funds.

The Boston Budget Cycle

Preparation and Approval--Boston's budgetary process begins with the preparation of agency budget requests for submission to the Budget Department (the Public School budget requests are prepared separately, under the direction of the Superintendent of Schools). Requests are prepared on standard "activity" budget forms in accordance with instructions provided by the Department. An "activity" is a separate program or function performed by a city department, most of which are responsible for performing several "activities". The "activity" budget forms, a FY 1984 innovation, require the agencies to subdivide their departmental requests into "activities" and to further subdivide each activity into the following budget groups:

- o Personnel Services (permanent and temporary employees, overtime, unemployment compensation and Workmen's Compensation)
- o Energy (heat, light, power)
- o Contractual services
- o Supplies and materials
- o Current charges and obligations (rentals, leases)
- o Equipment
- o Special appropriations
- o Structural improvements
- o Non-structural improvements

The fiscal 1984 activity budget forms represent a substantial improvement over previous City budget work sheets. But the forms are still quite incomplete. The breadth of data gathered by the Budget Department in its compilation of the budget is well below that obtained by budget departments in most major urban governments.

After City departments file their requests with Budget, the Director negotiates spending cuts with each agency head and, based on directions from the Mayor, prepares a Mayoral budget for submission to the City Council no later than mid-April.

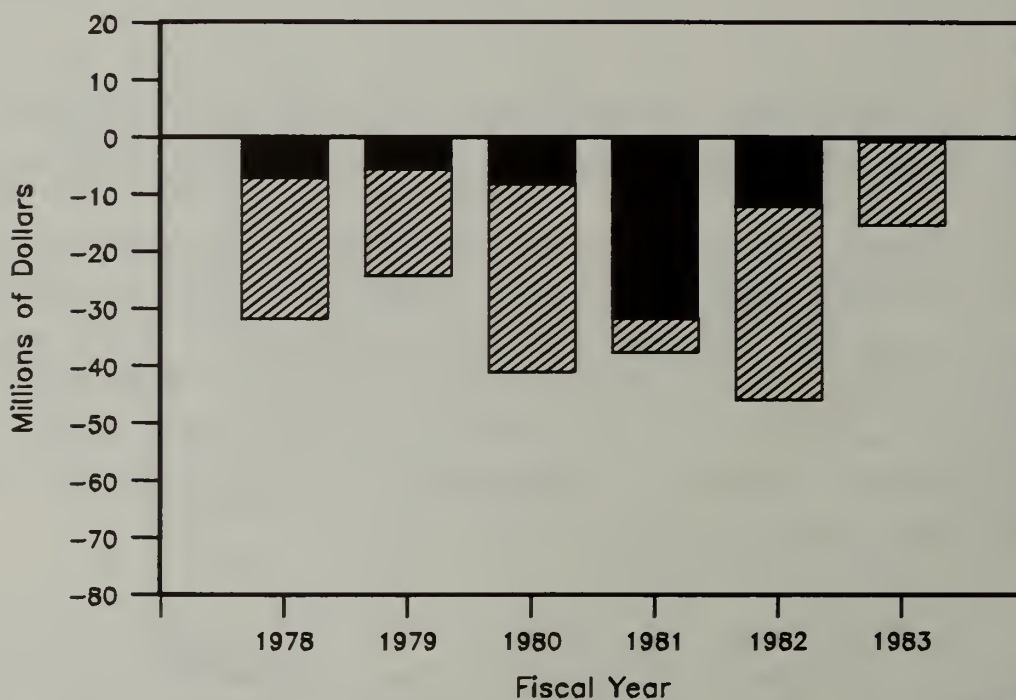
Prior to passage of Proposition 2-1/2, revenues were flexible, so the Mayor's budget was prepared simply by aggregating the agency requests, as amended by negotiations with the Mayor. The property tax levy was then set at an amount which would produce sufficient revenues to balance expenditures.

The Budget Department now refers to a baseline revenue estimate when developing the Mayoral Budget. In effect, however, the Office continues to develop the budget by aggregating agency requests as if revenues from the property tax levy were open-ended, when, in fact, Proposition 2-1/2 fixes the levy at a statutory maximum. Revenue projections are considered informally, after submission of agency requests to the Department, and do not appear to shape Mayoral spending recommendations or City Council budgetary decision-making.

Submission to the City Council occurs in mid-April. The Mayor's budget includes recommended appropriations for all City operations, except the public school system, and for Suffolk County, the county courts which are state-funded. Under its autonomous appropriation authority, the School Committee determines School Department spending up to a statutory "base" level, currently \$224.5 million. The Mayor may recommend funds for the school system in excess of this base amount.

Despite large annual increases in the school department budget, the department has historically been unable to live within its appropriations. Since 1978, school spending has consistently run over initial appropriation and has been a major contributor to the operating appropriation deficit as illustrated in Display 2.

**City of Boston
School Department Surplus/Deficit
FY 1978 – FY 1983**



Display 2

■ School Department Surplus/Deficit
▨ Non-School Operating Appropriations Surplus/Deficit

Prior to the passage in 1982 of the Funding Loan Act, commonly known as the "Tregor Bill," the School Committee possessed autonomous power to make appropriations from the City's General Revenue Fund, up to the limit of the prior year's appropriation, which included any prior year's supplemental appropriation. The Funding Loan Act eliminated

the established practice of annual increases in the appropriations base. The FLA set the base at \$211.4 million, with further increases in the base subject to Mayoral and City Council approval. In 1983 the Council increased the base to approximately \$224.5 million, over the Mayor's veto.

Further increases in the base above \$224.5 million are still subject to Mayoral and Council approval. If the Mayor and the Council act prudently and keep the annual base at \$224.5 million, they will each year obtain greater control over increases in school spending. Annual inflationary costs should push the budget above the current base level, but those incremental increases will no longer be the autonomous right of the School Committee.

By law, the City Council can reduce or reject any item in the Mayor's budget, but may not increase or add an item except by request of the Mayor. Though it has the authority to conduct a detailed review of the Mayor's budget, the Council lacks the basic information necessary to make rational budgetary allocations. It does not receive complete copies of the Departmental requests, as submitted to Administrative Services, and has little independent capability to conduct a detailed review of City spending.

In late June, the City Council approves a budget for the City which then is sent to the Mayor for his signature. Unlike the federal budget, the City budget must be balanced. To be balanced, the sum of four items (city, school, and county appropriations; the interest and principal payments due during the fiscal year on the City's debt; estimated court judgments against Boston; and estimated funding required for prior year deficits) must equal total City revenues, which include monies collected from the property tax levy, departmental revenues (parking fine collections, user fees, etc.), state aid and federal grants and

reimbursements. The property tax levy must be set in accordance with the requirements of Proposition 2-1/2.

The Massachusetts Department of Revenue must certify the tax rate of the City based on a balanced budget. The Department held up certification of the tax rate for FY 1984 due to the inability of the City to balance the budget and its prior practice of approving supplemental budgets regardless of the availability of revenues to pay for them. In order to receive a certification the City was forced to sign a memorandum of understanding with the Commonwealth in which the City agreed that if the Department of Revenue approved the issuance of the property tax bills for FY 1983, the City would submit an estimated Tax Rate Recapitulation Form for FY 1984 outlining revenue receipts and estimated deficits. In consideration, the City agreed to:

- o provide detailed analysis of revenue sources available to support any supplemental appropriations;
- o provide monthly reports of appropriation orders and revenue sources and a review of revenue receipts at least quarterly.

The appropriation of agency funds by the City Council marks the beginning, not the end, of the agency spending process. In compliance with the Funding Loan Act, the city is required to implement an expenditure allotment system for personnel costs, to reduce the likelihood of overspending by City Departments. Under the Act, City Department heads and the Superintendent of Schools must submit to the City Auditor an allotment schedule which indicates the percentage of the personnel budget the department intends to spend during each quarter of the fiscal year. For all agencies, except schools, allotments for personnel for each of the first two quarters are limited to 30% of the agency's total appropriation for personnel. The final two quarters spending may not

be less than 21% each. The Act further provides that School Department personnel spending may not exceed 20% for the first fiscal quarter or 30% for any of the remaining quarters.

Under the law, if the City Auditor finds that a department's spending will exceed its allotment, he must notify the Mayor who, within 7 days, must waive or enforce the allotment. If the Mayor waives the allotment ceiling, the department head must reduce agency personnel expenditures for subsequent quarters in order to balance personnel expenses with appropriations. If the Mayor enforces the spending limit, the department head must terminate all personnel expenditures for the remainder of the fiscal quarter.

In FY 1983, no agency exceeded its first and second quarter allotments. Five city and two county departments exceeded their third quarter allotments. Two city and two county departments exceeded their fourth quarter allotments. The Mayor waived the allotment ceiling in each case.

The Funding Loan Act further attempted to establish financial control by making city officials who intentionally spend in excess of appropriations personally liable.

Besides the restrictions of the allotment system, city agencies are further restricted in personnel expenditures by the requirement that any transfer of funds into personnel must be approved by the City Council.

The Funding Loan Act attempted to restrict mayoral flexibility in reallocation of funds outside the personnel area. The Act stipulates that the Mayor may make no more than \$3.0 million of reallocations among departments during a fiscal year. The intent of this provision was to check

the Mayor's ability to supercede the formal budgetary process, but allow some flexibility for unexpected expenses.

Currently the only additional budget control is a process instituted by the City Auditor known as "memo encumbrance". If a particular Department is in a deficit position in a non-personnel account, the Auditor's office will encumber an amount equal to the deficit in the personnel line, thereby affecting the allotment system and forcing a department head to eliminate the deficit or risk exceeding the quarterly allotment for personnel accounts. In the current environment this is an innovative way to gain some control over spending, but it is a very poor management control which violates the integrity of personnel and non-personnel financial information on an interim basis.

Weaknesses in the Current Budget System

This review of the budget process illustrates the basic lack of information available to all parties in the process which hinders managerial decision making.

The budget process currently does not inform Department heads of what type of data they should gather nor the basis upon which they should make budgetary projections. Comparisons of different programs become difficult if not impossible. This lack of information flow stems from the days when budget resources were allocated based on political strength rather than substantive program importance. At that time a department would simply submit a "wish list" which would be approved (or not). No allocation of limited resources among competing departments was required.

Prior to Proposition 2-1/2 the expenditures level was the driving force in establishing the tax rate, which would balance the budget. As a result of 2-1/2 the tax revenues are now set by statute and the controllable expenditure must be reduced to balance the budget. Despite this fact, the city continues to budget operational expenses as if there were an available revenue source for all expenditures.

This unlimited resource philosophy has also led to lax expenditure controls, since any operating appropriation deficit could be raised in the subsequent year's tax levy. Continued deficit spending compounds the problem in that it reduces available revenues for the subsequent years.

In practice, current expenditure controls are too weak to correct this pattern of recurring deficits. Theoretically, the Tregor Legislation (Funding Loan Act) imposed certain restrictions and controls over budgetary spending in the City. These controls include the personnel allotments and the Mayoral reallocation limit. Additionally, existing budgetary requirements that City Council approval be obtained for transfers into personnel line items should have established sufficient controls over personnel spending in the City, which represents approximately 65% of the Operating Appropriation. This is not the case.

There are current budget procedures that circumvent all of the controls mentioned above. Typically the City passes excessive appropriations for the personnel line items in various departments. This gives the department head uncontrollable flexibility in determining the allocation of resources between personnel and non-personnel items and also renders the personnel allotment procedures established by Tregor ineffective, due to the fact that the allocations are

based on an inflated personnel number. A department can use the Contractual Services line for personnel-related services and circumvent the allotment process altogether. Typically, people are hired and paid out of the non-personnel area of contract services for full-time positions, thereby avoiding charges to the personnel services line. This again allows department heads total discretion as to allocation of resources within a department regardless of the administration's policies or programs. This lack of control is reinforced by the use of memo encumbrance by the Auditor, who, in effect, facilitates line item charges and transfers without formal requests or approvals by encumbering prescribed funds to pay non-personnel items.

Yet another method to circumvent the controls has been facilitated inadvertently by the Budget Department. While implementing a chargeback system, the Budget Department instituted a system whereby individual departments, not the City's central accounts, are charged for unemployment insurance costs. This forces department heads to carefully monitor who is eligible for these benefits. However, currently, Unemployment Compensation is budgeted in the personnel services group of accounts, while the chargeback is against non-personnel items. This causes a deficit in non-personnel items. It is up to the department head to determine if he wishes to use personnel funds or non-personnel funds to pay for the chargeback. This effectively allows an increase in personnel resources without City Council approval.

The lack of the most basic controls indicates a deep rooted problem that cannot be solved easily. The City must embark on an entirely new approach to budgeting and control. One such approach is outlined in the next section.

THE BUDGET PROCESS AND EXPENDITURE CONTROLS: THE NEED FOR FUNDAMENTAL REFORM

With the change in administration, the City is presented with an historic opportunity to end the secrecy and confusion that surrounds the current budget process and to end the annual guessing game of "who knows the deficit?"

Budgetary politics is the single aspect of municipal finance most responsible for undermining the public credibility of elected leaders. The Dukakis administration has taken the first step by resolving to end the confusion concerning the local aid formula with its commitment to release local aid levels by the beginning of the fiscal year. The past practice of withholding the figures produced chaos in the municipal property tax system.

It is the City's turn to contribute. There may never be a better opportunity in Boston's history for its elected officials to regain the confidence of its citizens.

A New Approach to Urban Fiscal Stress: Two Tiered Budgeting

In an atmosphere of limited resources, rising costs and increased demands for services, the Administration and the City are being forced into an era of resource allocation among a variety of city services, some essential, some discretionary. Two Tiered Budgeting (TTB) would segregate these programs and allow resource allocation based on separate criteria.

As the first tier of the new budgetary process, the Mayor should work with the Fire, Police, Public Works, other

essential City Departments and with the School Superintendent to develop a Core Service Budget for submission to the City Council or, in the case of the public school budget, to the School Committee. The Council could receive the Core Service Budget in early April, along with a message from the Mayor outlining the service levels supported by the budget. The budget would include funding for debt service, projected retirement contributions, prior year deficits to be realized in the coming year, as well as core service appropriations with such information as:

- o minimum manning levels for essential departments such as police, fire, and public works;
- o minimum levels of service delivery necessary to continue receipt of targeted federal funds;
- o minimum staffing of City Agencies and review bodies that must be maintained by legal mandate;
- o fixed costs for which the City is already obligated.

It would be up to the Council, with recommendations from the Mayor, to determine what level of service would be required to provide these essential services.

This decision process would require much greater detail than is currently available within the budget process. Detailed projections at varying levels of service would have to be available for review. The current information base, both at the City Department level and the Budget Department level would have to be improved. Information regarding federal and state funded programs would be essential in establishing minimal staffing levels and minimal service levels. All resources available to fund a particular program would have to be identified.

Once the Council has approved a core service budget, the administration would then estimate the resources available to fund discretionary programs based on projected revenues and grants, reduced by amounts applied to the core service budget amounts. The Mayor would then submit a Discretionary Program Budget for submission to the Council by May 1. By law the sum of the Discretionary Program Budget and the Essential Services Budget would have to equal the total projected revenues.

Under this system everyone involved -- agency managers, the Mayor, the Council and the public -- would be forced to ask the hard questions, and make the hard choices about what represents the absolute base of the budget, without which the City cannot survive. That base budget will represent a commitment to service delivery that will not be jeopardized if revenue shortfalls develop during the year. The practice of using essential city services, such as police and fire, as political pawns in the search for more revenues or of refusing to cut non-essential programs because they were politically popular will be practices of the past.

Two Tier Budgeting is not Zero Base Budgeting. It is not Program Budgeting. It is a system that combines the best, most workable elements of both those systems. And it is a system that would ensure a level of credibility in and comprehension of the Boston budget system. It is a system that will put forth the hard budgetary choices in plain English, so that all interested parties will be given the necessary information to develop an annual expenditure blueprint.

Control Over Financial Resources: Using the Budget System

Two Tiered Budgeting will function to identify resources and allocate them to various City services and costs. However, a comprehensive system of financial controls must also be implemented to monitor the flow of financial resources and information. For TTB or any budget process to be successful a new system of budgeting control must be implemented.

This will require the Administration to instill in the departments the importance of the budget process and the evenhandedness of it. The process and procedures will have to be fully disclosed and adhered to on a consistent basis. A formal budget guide, in writing, will need to be developed outlining each participant's role and responsibility.

Upon final approval of the budget a realistic spending plan should be developed setting quarterly spending allotments to serve as a monitor of actual results during the year. This spending plan should be a joint effort between the Budget Department and the department heads. Expenditures should be compared to the plan on a regular basis and any variances analyzed by both parties.

Requirements must be implemented to ensure that a formal request and approval process is instituted over inter-line item transfers which exceed a certain established base amount. Department heads must have flexibility to manage properly; but flexibility need not come at the cost of control.

One critical area that is basic to the success of the budget cycle is the ability of Boston's financial system to generate the necessary information in an accurate and

timely manner. The current account system does not offer the flexibility necessary to develop information in various formats. The basic problem is the current system's inability to accumulate data in usable form.

In December of 1983 the Auditors office hired the firm of Ernst and Whinney to assist the City in developing a City of Boston Accounting Manual. The benefits of these system improvements will include a coding structure which allows for flexible management reporting and budgeting as well as developing accounting policies and procedures for the Auditing department and the City as a whole which will facilitate day to day management. This program, in coordination with the development of a new intergrated financial management system will help improve the financial management information available for decision making.

Recommendations - The Budget Cycle

1. Two Tiered Budgeting (TTB)--The new Administration must work with the City Council and the department heads to develop a workable TTB budget process. It will be necessary to define core services and minimum service levels as well as develop the necessary data base. It may be too late in the present fiscal year to fully implement TTB for FY 1985.
2. Budgeting Total Resources--In an atmosphere of limited available resources for municipal government it is important that the Administration make every effort to identify and allocate all available resources. This would require that during the budget preparation process department heads identify and budget all federal, State, capital and general City resources available. This comprehensive budget information will eliminate patchwork allocation and allow for greater control over funds.

3. Expenditure Control--The most critical aspect of any budget system is its ability to control expenditure by receiving timely and accurate information for making management decisions and taking corrective action. The current financial system of the City needs extensive upgrading to meet these requirements. Some of these systems are currently undergoing review and change; however, an extensive financial system review should be undertaken by the Administration to identify problem areas and focus attention on them early.
4. Spending Plans--The current budget process offers no means of monitoring the spending patterns of a particular department. In order to determine if a particular level is acceptable requires more than just allocating on a straight twelve month basis. The Budget Department must work with the individual department heads to formulate a realistic detailed spending plan based on seasonal spending cycles.

APPENDICES

- A. Overlay Reserve As a Percentage of Gross Levy.
5-Year Cumulative Summary of Abatement Activity.
- B. Review of City Council's Supervisor of Finance's
Memorandum on Unliquidated Reserve Accounts.
- C. Summary of Operating Positions, Fiscal 1967-1983.
- D. Personnel Services -- Budget to Actual Comparison,
Fiscal 1984 at December 31, 1983.
- E. Budget to Actual Non-Personnel Expenditures and
Encumbrance, Fiscal 1984 at December 31, 1983
(Preliminary Data).

APPENDIX A

CITY OF BOSTON
OVERLAY RESERVE AS A PERCENTAGE OF GROSS LEVY
five years commencing 1980
(in thousands)

<u>Levy Year</u>	<u>Overlay Reserve</u>	<u>Gross Levy</u>	<u>Overlay Reserve As a % of Gross Levy</u>
1980	\$24,868	\$439,540	5.66%
1981	24,702	518,675	4.76
1982	24,140	440,719	5.48
1983	20,229	374,611	5.40
1984	20,829	333,268	6.25

SOURCE: City of Boston Tax Rate Recapitulations.

CITY OF BOSTON
5 YEAR CUMULATIVE SUMMARY OF ABATEMENT ACTIVITY

(in thousands)

		FUNDING SOURCES					OVERLAY BALANCE
ABATEMENTS IN EXCESS OF OVERLAYS		OVERLAY DEFICIT RAISED & APPLIED	YEARS NON-SPECIFIC OVERLAYS RAISED	DISPROP. ASSESS. FUND REIMBURSEMENT	YEARS NON-SPECIFIC OVERLAY DEFICIT APPLIED		
FISCAL YEAR 1979 1980 TAX RATE	\$ 15,588.	\$ 15,588.	N/A	N/A	N/A	-0-	-0-
FISCAL YEAR 1980 1981 TAX RATE	12,631.	12,662.	\$ 10,000.	N/A	-0-	\$ (10,031.)	
FISCAL YEAR 1981 1982 TAX RATE	15,170.	15,170.	40,000.	N/A	-0-	(40,000.)	
FISCAL YEAR 1982 1983 TAX RATE	28,257.	5,182.	N/A	N/A	-0-	-0-	
FISCAL YEAR 1983 1984 TAX RATE	50,030.	-0-	5,600.	\$ 34,611.	\$ 15,419.	(5,600.)	
NET POSITION							
				\$ 15,419.	\$ (55,631.)		
				=====	=====		
					(40,212.)		
					17,600.		
					\$ (20,612.)		
					=====		

OVERLAY BALANCE APPROVED FOR APPLICATION AS AVAILABLE FUNDS

OVERLAY BALANCE

SOURCE: Auditing Department
January 9, 1984

APPENDIX B

REVIEW OF CITY COUNCIL'S SUPERVISOR
OF FINANCE'S MEMORANDUM ON
UNLIQUIDATED RESERVE ACCOUNTS
(in thousands)

<u>ENCUMBRANCE NUMBER</u>	<u>ENCUMBRANCE TITLE</u>	<u>AMOUNT</u> ¹	<u>CURRENT BALANCE</u> ²
9-27-000 RESERVE FOR ENCUMBRANCES 1982 AND PRIOR			
R-702-82	Non-Contractual	\$ 250	\$ 250
R-750-82	Permanent Employees	51	51
R-1142-82	Police Union Retro	1,735	1,735
	SUBTOTAL.....	2,036	2,036
9-28-00 RESERVE FOR ENCUMBRANCES-HOSPITAL 1982 AND PRIOR			
R-851-82	Permanent Employees	28	28
R-897-82	Permanent Employees	57	57
	SUBTOTAL.....	85	85
9-31-00 RESERVE FOR ENCUMBRANCES - CITY 1983			
M-845-83	Hospital Ins Est Charges-Schools	\$488	\$ -
M-6111-83	Memo-PFD	26	-
R-2004-83	BRA-Salaries	933	933
R-2005-83	BRA-Unemployment	21	21
R-2007-83	BRA-Transportation of Persons	5	5
R-2008-83	BRA-Contractual Services	199	199
R-2009-83	BRA-Office Supplies	44	44
R-2010-83	BRA-Current Charges	462	462
R-2010-83	BRA-Misc Equipment	23	23
R-2012-83	BRA-Special	749	749
R-2025-83	Postage	137	137
R-2028-83	Postage	19	19
R-2031-83	FY 83 P&R/Retroactive Pay	11	9
R-2064-83	Boston Fire Dept	288	-
R-2065-83	Boston Fire Dept	251	-
R-2067-83	Treasury Dept	24	24

REVIEW OF CITY COUNCIL'S SUPERVISOR OF FINANCE'S MEMORANDUM ON
UNLIQUIDATED RESERVE ACCOUNTS, continued
(in thousands)

ENCUMBRANCE NUMBER	ENCUMBRANCE TITLE	AMOUNT ¹	CURRENT BALANCE ²
9-31-00 RESERVE FOR ENCUMBRANCES - CITY 1983			
R-2069-83	Boston Fire Dept	14	14
R-2070-83	Personnel	203	174
R-2071-83	Personnel/Overtime	173	-
R-2077-83	Permanent Employees	36	33
R-2081-83	Medical/Ins Surg.	136	136
R-2084-83	MAC Payroll #2401-0	62	-
R-2113-83	Payroll Temp	13	2
R-2154-83	Payroll	18	-
R-2155-83	Overtime	39	-
R-2191-83	Boston Police	9	9
R-2263-83	Unknown Vendor	24	24
R-2279-83	Payroll	19	18
R-2280-83	Payroll	5	-
R-2300-83	Boston School Dept	54	54
R-2306-83	Boston School Dept	50	50
R-2330-83	Payroll	6	6
R-2361-83	Holiday Pay	165	-
R-2362-83	Overtime	600	4
R-2363-83	Workmen's Comp	30	30
R-2377-83	Idemmnifications	118	117
R-2389-83	Payroll	29	-
R-2449-83	MAC- Payroll	11	9
R-2478-83	Payroll	8	-
R-2481-83	Various Office Equipment	55	55
R-2490-83	Various Vendors	23	23
R-2595-83	Payroll	425	-
R-2603-83	Personnel (28355-83)	11	11
R-2621-83	Union Retro Salary Inc.	70	70
R-2622-83	Union Retro/Detective Salary	315	-
R-2623-83	Union Retro/Patrolmen Salary	2,018	1,959
R-2624-83	Union Retro/Election Workers	15	15
R-2625-83	Union Retro/Housing Inspection	70	70
R-2626-83	Union Retro/Salary Inc.	496	239
SUBTOTAL		9,000	5,747

REVIEW OF CITY COUNCIL'S SUPERVISOR OF FINANCE'S MEMORANDUM ON
UNLIQUIDATED RESERVE ACCOUNTS, continued
(in thousands)

ENCUMBRANCE <u>NUMBER</u>	<u>ENCUMBRANCE TITLE</u>	<u>AMOUNT</u> ¹	<u>CURRENT BALANCE</u> ²
9-32-00 RESERVE FOR ENCUMBRANCES-COUNTY 1983			
R-2101-83	Payroll	10	10
R-2102-83	Payroll	5	1
R-2103-83	Payroll	20	-
R-2104-83	Clothing Allowance	13	13
R-2167-83	Uniform Allowance	18	18
R-2169-83	Workmen's Comp	13	13
R-2184-83	Longevity Payroll	15	15
R-2185-83	Retro w Diff Payroll #5102 Penal	51	17
R-2186-83	Retro OT Payroll #5102 Penal	51	-
R-2627-83	Union Retro/Charles St.	153	153
R-2628-83	Union Retro/Deer Island	209	209
	SUBTOTAL	558	449
9-33-00 RESERVE FOR ENCUMBRANCES-SCHOOL 1983			
C-1600-83	School Dept *U	403	401
R-2500-83	Personnel	1,143	-
R-2501-83	Non-Personnel	4,824	3,588
	SUBTOTAL	6,370	3,989
9-34-00 RESERVE FOR ENCUMBRANCES-P & E 1983			
R-2502-83	Collective Bargaining Retro	70	1
R-2505-83	Non-Contractual Serv.	13	13
	SUBTOTAL	83	14

REVIEW OF CITY COUNCIL'S SUPERVISOR OF FINANCE'S MEMORANDUM ON
UNLIQUIDATED RESERVE ACCOUNTS, continued
(in thousands)

<u>ENCUMBRANCE NUMBER</u>	<u>ENCUMBRANCE TITLE</u>	<u>AMOUNT</u> ¹	<u>CURRENT BALANCE</u> ²
9-35-00 RESERVE FOR ENCUMBRANCES-BCH-1983			
R-2205-83	Payroll	\$517	515
9-36-00 RESERVE FOR ENCUMBRANCES-MATTAPAN 1983			
R-2225-83	Payrolls	47	47
9-37-00 RESERVE FOR ENCUMBRANCES-LONG ISLAND 1983			
R-2250-83	Payrolls	81	64

The above listing does not encompass all unli-
quidated reserves See separate analysis.

The change in the balances relates to overtime and
other payments processed and adjustment of encumbrances.

NOTES

- 1 Amounts indicated on City Council's Supervisor of
Finance memorandum.
- 2 Current balance of the reserve item per the records in
the Auditing Department.

January 9, 1984

APPENDIX C

CITY OF BOSTON
SUMMARY OF OPERATING POSITIONS
(in thousands)

<u>Years Ending</u>	<u>Revenue Surplus</u>	<u>Appropriation (Deficit)</u>	<u>Net Operating Surplus</u>	<u>(Deficit)</u>
June 30, 1983	\$(20,819)	\$(15,946)		\$(36,765)
1982	(6,515)	(36,703)		(43,218)
1981	0	(32,295)		(32,295)
1980	2,293	(25,000)		(22,707)
1979	9,871	(15,227)		(5,356)
1978	0	(16,043)		(16,043)
1977	25,757	(15,000)	\$10,757	
1976	12,747	(20,730)		(7,983)
1975	390	0	390	
1974 (18 mos.)	12,484	1,447	13,931	
Dec. 31, 1972	(22,829)	6,889		(15,940)
1971	(33,567)	6,037		(27,530)
1970	(2,544)	4,104	1,560	
1969	(3,426)	3,603	177	
27968 (8,537)	5,315		(3,222)	
1967	<u>1,522</u>	<u>1,103</u>	<u>2,565</u>	
TOTAL:	<u>(33,143)</u>	<u>\$(148,536)</u>	<u>\$29,380</u>	<u>\$(211,059)</u>

NOTE: Property Tax Revenue is reflected on a cash basis through 1972; on a modified accrual basis effective in Fiscal 1974.

Source: Auditing Department

CITY OF BOSTON
PERSONAL SERVICES-BUDGET TO ACTUAL COMPARISON
FISCAL 1984 AT DECEMBER 31, 1983
(in thousands)

	BUDGET	ACTUAL	% OF BUDGET
General Government			
10111 MAYOR OFFICE EXPENSES	\$ 899	\$ 372	41
10112 CITY COUNCIL	1,382	518	37
10114 MAYOR'S OFFICE LICENSING	259	106	41
10119 OFFICE OF HUMAN RIGHTS	0	0	*
10121 ELECTION	2,341	1,288	55
10128 LISTING BOARD	239	76	32
10131 AUDITING	945	470	50
10132 TREASURY-MOTOR VEHICLE EXCISE COLLECTION	0	0	*
10134 OFFICE OF PROPERTY EQUALIZATION	0	0	*
10136 ASSESSING	4,162	1,975	47
10137 TREASURY-COLLECTING DIVISION	738	331	45
10138 TREASURY-TREASURY DIVISION	632	255	40
10141 ADMINISTRATIVE SERVICES-ADMIN DIVISION	546	274	50
10142 PERSONNEL DIVISION	826	381	46
10143 PURCHASING DIVISION	580	265	46
10144 BUDGET DIVISION	592	337	57
10145 PRINTING DIVISION	1,499	764	51
10146 COMPLAINTS DIVISION	416	159	38
10147 LABOR RELATIONS DIVISION	236	115	49
10149 DATA PROCESSING DIVISION	1,690	826	49
10151 LAW	1,516	646	43
10152 A.S.D. CLEARING ACCOUNT	0	0	*
10153 INTERGOVERNMENTAL RELATIONS	141	71	50
10161 CITY CLERK-CITY CLERK	315	138	44
10163 CITY CLERK-REGISTRY DIVISION	426	195	46
10193 FINANCE COMMISSION	83	34	41
10312 FREEDOM TRAIL	0	0	*
11321 COMMUNITY SERVICES ADMINISTRATION	266	138	52
11361 CITY RECORD PUBLICATION	56	28	50
11384 RENT CONTROL ADMINISTRATION	437	223	51
11386 E. D. I. C.	194	93	48
11387 COMMISSION ON AFFAIRS OF ELDERLY	1,551	740	48
11398 COMMISSION ON HANDICAPPED	68	29	43
11402 OFFICE OF POLICY MANAGEMENT	783	373	48
11403 FAIR HOUSING COMMISSION	158	65	41
11404 PUBLIC INFORMATION	274	166	61
11406 EMERGENCY SHELTER COMMISSION	0	0	*
11405 MAYORAL REALLOCATION	0	0	*
Subtotal	24,250	11,451	47

CITY OF BOSTON
PERSONAL SERVICES-BUDGET TO ACTUAL COMPARISON
FISCAL 1984 AT DECEMBER 31, 1983
(in thousands)

	BUDGET	ACTUAL	% OF BUDGET
Public Safety			
10211 POLICE	59,733	30,469	51
10221 FIRE	49,632	24,415	49
10251 TRAFFIC & PARKING	4,353	2,106	48
10253 PARKING CLERK	769	393	51
10222 ARSON COMMISSION	50	0	0
Subtotal	114,537	57,383	50
Public Works			
12331 SNOW REMOVAL	0	48	*
10315 PUBLIC IMPROVEMENT COMMISSION	264	204	77
10311 PUBLIC WORKS	11,177	5,173	46
Subtotal	11,441	5,425	47
Property & Development			
10171 BOSTON REDEVELOPMENT AUTHORITY	2,830	531	19
10184 REAL PROPERTY-BUILDING DIVISION	2,591	1,323	51
10185 REAL PROPERTY-PROPERTY DIVISION	547	275	50
10188 PUBLIC FACILITIES	3,121	1,742	56
10189 PUBLIC FACILITIES-COMMUNITY SCHOOLS	1,087	564	52
Subtotal	10,176	4,435	44
Parks & Recreation			
11141 PARKS & RECREATION	4,350	2,125	49
11143 ENVIRONMENTAL AFFAIRS	402	159	40
53321 PARKS & RECREATION-CEMETERY	591	304	51
Subtotal	5,343	2,588	48
Library			
11011 LIBRARY	8,299	3,971	48
Subtotal	8,299	3,971	48
Inspectional Services			
10252 LICENSING BOARD	299	148	50
10260 INSPECTIONAL SERVICES	5,611	2,979	53
10262 BOARD OF APPEAL	149	67	45
Subtotal	6,059	3,194	53

CITY OF BOSTON
 PERSONAL SERVICES-BUDGET TO ACTUAL COMPARISON
 FISCAL 1984 AT DECEMBER 31, 1983
 (in thousands)

Page 3.

		BUDGET	ACTUAL	% OF BUDGET
Veterans' Services				
10741	VETERANS' SERVICES	672	274	41
10742	VETERANS' GRAVES REGISTRATION	56	29	52
	Subtotal	728	303	42
Schools				
20046	PLANNING & ENGINEERING	1,282	592	46
29900	GENERAL SCHOOLS	145,333	62,031	43
	Subtotal	146,615	62,623	43
Health & Hospitals				
10611	BOSTON CITY HOSPITAL	59,830	26,357	44
10621	MATTAPAN HOSPITAL	5,900	2,779	47
10631	LONG ISLAND HOSPITAL	8,000	3,705	46
	Subtotal	73,730	32,841	45
County				
40165	REGISTRY OF DEEDS	1,007	479	48
40182	COURT HOUSE CUSTODIAN	2,347	1,224	52
40811	JAIL	3,242	1,719	53
40813	HOUSE OF CORRECTION	4,936	2,635	53
	Subtotal	11,532	6,057	53
Judgment & Claims				
11331	EXECUTION OF COURTS	0	0	*
	Subtotal	0	0	*
Employee Benefits				
10148	ADMIN. SERVICES-HOSPITAL	365	152	42
11377	BOND ALLOTMENT	15	8	53
10192	STATE BOSTON RETIREMENT SYSTEM FUND	830	0	0
11341	WORKMENS COMPENSATION SERVICES	233	123	53
11342	WORKMENS COMPENSATION	0	0	*
	Subtotal	1,443	283	20

CITY OF BOSTON
PERSONAL SERVICES-BUDGET TO ACTUAL COMPARISON
FISCAL 1984 AT DECEMBER 31, 1983
(in thousands)

Page 4.

	BUDGET	ACTUAL	% OF BUDGET
Contribution to Retirement Funds			
07142 STATE BOSTON RETIREMENT SYSTEM-PENSION	0	0	*
11374 PENSION & ANNUITIES-CITY	0	0	*
41375 PENSION & ANNUITIES-COUNTY	0	0	*
Subtotal	0	0	*
Debt Requirements			
04123 INTEREST ON REFUNDED TAXES	0	0	*
04111 CITY LOANS REDEMPTION	0	0	*
04121 CITY DEBT REQUIREMENT INTEREST	0	0	*
04127 INT ON ANTICIPATED BOND ISSUE	0	0	*
04122 INTEREST ON TEMPORARY LOANS	0	0	*
Subtotal	0	0	*
State Assessment			
01511 STATE EXAM OF RETIREMENT SYSTEM	0	0	*
01512 HEALTH INSURANCE-RETIREMENT SYSTEM	0	0	*
01513 MOTOR VEHICLE EXCISE TAX BILLS	0	0	*
01515 MOSQUITO CONTROL PROJECTS	0	0	*
01516 SUFFOLK EDUCATION CHAPTER	0	0	*
01517 SUFFOLK CITY EXTENSION SERVICE	0	0	*
Subtotal	0	0	*
Metropolitan District Assessment			
01531 METROPOLITAN PARKS	0	0	*
01532 METROPOLITAN AIR POLLUTION CONTROL	0	0	*
01533 METROPOLITAN AREA PLANNING	0	0	*
01552 METROPOLITAN DISTRICT COMMISSION ASSESSMENTS	0	0	*
Subtotal	0	0	*
M.B.A. Assessment			
01551 MBTA ASSESSMENTS	0	0	*
Subtotal	0	0	*
TOTAL	414,153	190,554	46

See Attached Notes.

CITY OF BOSTON
BUDGET TO ACTUAL NON-PERSONAL EXPENDITURES AND ENCUMBRANCE
FISCAL 1984 AT DECEMBER 31, 1983-PRELIMINARY DATA
(in thousands)

	BUDGET	ACTUAL	ENCUMBRANCES	TOTAL ACTUAL	ACTUAL AS A % OF BUDGET
General Government					
10111 MAYOR OFFICE EXPENSES	\$ 199	\$ 59	\$ 96	\$ 155	78.2%
10112 CITY COUNCIL	170	48	27	75	44.
10114 MAYOR'S OFFICE LICENSING	40	9	1	10	25.
10119 OFFICE OF HUMAN RIGHTS	200	200	-0-	200	100.
10121 ELECTION	586	169	107	276	47.
10128 LISTING BOARD	7	1	6	7	100.
10131 AUDITING	209	79	78	157	75.
10132 TREASURY-MOTOR VEHICLE EXCISE COLLECTION	643	233	294	527	82.
10134 OFFICE OF PROPERTY EQUALIZATION	-0-	2	-0-	2	*
10136 ASSESSING	1,677	730	666	1,396	83.
10137 TREASURY-COLLECTING DIVISION	657	296	186	482	73.
10138 TREASURY-TREASURY DIVISION	1,055	394	349	743	70.
10141 ADMINISTRATIVE SERVICES-ADMIN DIVISION	187	52	77	129	69.
10142 PERSONNEL DIVISION	208	86	29	115	55.
10143 PURCHASING DIVISION	138	39	61	100	72.
10144 BUDGET DIVISION	210	49	68	117	56.
10145 PRINTING DIVISION	622	197	318	515	83.
10146 COMPLAINTS DIVISION	14	4	-0-	4	29.
10147 LABOR RELATIONS DIVISION	110	41	55	96	87.
10149 DATA PROCESSING DIVISION	2,311	459	987	1,446	63.
10151 LAW	449	150	231	381	85.
10152 A.S.D. CLEARING ACCOUNT	-0-	295	630	925	*
10153 INTERGOVERNMENTAL RELATION	104	36	81	117	113.
10161 CITY CLERK-CITY CLERK	35	3	6	9	26.
10163 CITY CLERK-REGISTRY DIVISION	51	9	9	18	35.
10193 FINANCE COMMISSION	2	7	7	14	700.
10312 FREEDOM TRAIL	200	25	175	200	100.
11321 COMMUNITY SERVICES ADMINISTRATION	415	333	32	365	88.
11361 CITY RECORD PUBLICATION	9	3	3	6	67.
11384 RENT CONTROL ADMINISTRATION	90	11	-0-	11	12.
11386 E. D. I. C.	176	19	-0-	19	11.
11387 COMMISSION ON AFFAIRS OF ELDERLY	483	124	165	289	60.
11398 COMMISSION ON HANDICAPPED	14	4	-0-	4	29.
11402 OFFICE OF POLICY MANAGEMENT	284	196	74	270	95.
11403 FAIR HOUSING COMMISSION	5	1	7	8	160.
11404 PUBLIC INFORMATION	73	39	7	46	63.
11405 MAYORAL REALLOCATION	301	-0-	-0-	-0-	00.
11406 EMERGENCY SHELTER COMMISSION	75	36	-0-	36	48.
Subtotal	12,007	4,438	4,793	9,231	77.

CITY OF BOSTON
BUDGET TO ACTUAL NON-PERSONAL EXPENDITURES AND ENCUMBRANCES
FISCAL 1984 AT DECEMBER 31, 1983--PRELIMINARY DATA
(in thousands)

	BUDGET	ACTUAL	ENCUMBRANCE	TOTAL ACTUAL	ACTUAL AS A % OF BUDGET
Public Safety					
10211 POLICE	\$ 6,169	\$ 1,335	2,420	\$ 3,755	61.
10221 FIRE	4,769	1,212	1,606	2,818	59.
10251 TRAFFIC & PARKING	2,477	667	1,190	1,857	75.
10253 PARKING CLERK	4,340	2,180	1,411	3,591	83.
10222 ARSON COMMISSION	---	---	---	---	00.
Subtotal	17,755	5,394	6,627	12,021	68.
Public Works					
12331 SNOW REMOVAL	700	227	441	668	95.
10315 PUBLIC IMPROVEMENT COMMISSION	97	74	13	87	90.
10311 PUBLIC WORKS	28,121	8,729	10,458	19,187	68.
Subtotal	28,918	9,030	10,912	19,942	69.
Property & Development					
10171 BOSTON REDEVELOPMENT AUTHORITY	2,143	162	224	386	18.
10184 REAL PROPERTY-BUILDING DIVISION	3,098	859	421	1,280	41.
10185 REAL PROPERTY-PROPERTY DIVISION	298	23	291	314	105.
10188 PUBLIC FACILITIES	5,408	967	2,753	3,720	69.
10189 PUBLIC FACILITIES-COMMUNITY SCHOOLS	---	---	---	---	567.
Subtotal	10,986	2,218	3,703	5,921	54.
Parks & Recreation					
11141 PARKS & RECREATION	2,938	1,222	957	2,179	74.
11143 ENVIRONMENTAL AFFAIRS	124	15	51	66	53.
53321 PARKS & RECREATION-CEMETERY	---	---	---	---	43.
Subtotal	3,446	1,279	1,131	2,410	70.
Library					
11011 LIBRARY	3,712	1,250	1,021	2,271	61.
Subtotal	3,712	1,250	1,021	2,271	61.
Inspectional Services					
10252 LICENSING BOARD	78	53	31	84	108.
10260 INSPECTIONAL SERVICES	1,096	172	220	392	36.
10262 BOARD OF APPEAL	76	3	55	58	76.
Subtotal	1,250	228	306	534	43.

CITY OF BOSTON
BUDGET TO ACTUAL NON-PERSONAL EXPENDITURES AND ENCUMBRANCES
FISCAL 1984 AT DECEMBER 31, 1983-PRELIMINARY DATA
(in thousands)

	BUDGET	ACTUAL	ENCUMBRANCE	TOTAL ACTUAL	ACTUAL AS A % OF ACTUAL
Veterans' Services					
10741 VETERANS' SERVICES	\$ 2,549	834	23	857	34.
10742 VETERANS' GRAVES REGISTRATION	-----64	-----1	-----0-	-----1	-----2.
Subtotal	<u>2,613</u>	<u>835</u>	<u>23</u>	<u>858</u>	<u>33.</u>
Schools					
20046 PLANNING & ENGINEERING	4,718	1,409	2,096	3,505	74.
29900 GENERAL SCHOOLS	<u>28,367</u>	<u>17,442</u>	<u>27,982</u>	<u>47,438</u>	<u>61.</u>
Subtotal	<u>83,085</u>	<u>18,858</u>	<u>32,085</u>	<u>50,943</u>	<u>61.</u>
Health & Hospitals					
10611 BOSTON CITY HOSPITAL	27,247	11,716	14,452	26,168	96.
10621 MATTAPAN HOSPITAL	2,288	1,219	852	2,071	91.
10631 LONG ISLAND HOSPITAL	<u>2,926</u>	<u>1,163</u>	<u>1,218</u>	<u>2,381</u>	<u>81.</u>
Subtotal	<u>32,461</u>	<u>14,098</u>	<u>16,522</u>	<u>30,620</u>	<u>94.</u>
County					
40165 REGISTRY OF DEEDS	151	64	71	135	89.
40182 COURT HOUSE CUSTODIAN	1,021	335	449	784	77.
40811 JAIL	863	215	220	435	50.
40813 HOUSE OF CORRECTION	<u>1,902</u>	<u>620</u>	<u>711</u>	<u>1,401</u>	<u>73.</u>
Subtotal	<u>3,944</u>	<u>1,304</u>	<u>1,451</u>	<u>2,755</u>	<u>70.</u>
Judgment & Claims					
11331 EXECUTION OF COURTS	<u>1,000</u>	<u>1,250</u>	<u>-----0-</u>	<u>1,250</u>	<u>125.</u>
Subtotal	<u>1,000</u>	<u>1,250</u>	<u>-----0-</u>	<u>1,250</u>	<u>125.</u>
Employee Benefits					
10148 ADMIN. SERVICES-HOSPITAL	26,476	13,418	10,422	23,840.	90.
11377 BOND ALLOTMENT	-0-	-0-	-0-	-0-	00.
10192 STATE BOSTON RETIREMENT SYSTEM FUND	261	26	28	54	21.
11341 WORKMENS COMPENSATION SERVICES	24	3	1	4	17.
11342 WORKMENS COMPENSATION	<u>1,410</u>	<u>1,158</u>	<u>-----34</u>	<u>1,192</u>	<u>85.</u>
Subtotal	<u>28,171</u>	<u>14,605</u>	<u>10,485</u>	<u>25,090</u>	<u>89.</u>

CITY OF BOSTON
BUDGET TO ACTUAL NON-PERSONAL EXPENDITURES AND ENCUMBRANCES
FISCAL 1984 AT DECEMBER 31, 1983-PRELIMINARY DATA
(in thousands)

	BUDGET	ACTUAL	ENCUMBRANCES	TOTAL ACTUAL	ACTUAL AS A % OF BUDGET
Contribution to Retirement Funds					
07142 STATE BOSTON RETIREMENT SYSTEM-PENSION	102,535	51,241	-0-	51,241	50.
11374 PENSION & ANNUITIES-CITY	9,810	5,053	-0-	5,053	52.
41375 PENSION & ANNUITIES-COUNTY	---	419	-0-	419	---
Subtotal	112,345	56,713	-0-	56,713	50.
Debt Requirements					
04123 INTEREST ON REFUNDED TAXES	8	-0-	-0-	-0-	00.
04111 CITY LOANS REDEMPTION	38,465	15,875	-0-	15,875	41.
04121 CITY DEBT REQUIREMENT INTEREST	32,202	13,742	-0-	13,742	43.
04122 INTEREST ON TEMPORARY LOANS	913	419	-0-	419	46.
04127 INTEREST ON BANS	1,235	-0-	-0-	-0-	00.
Subtotal	73,523	30,036	-0-	30,036	41.
State Assessment					
01511 STATE EXAM OF RETIREMENT SYSTEM	66	-0-	-0-	-0-	00.
01512 HEALTH INSURANCE-RETIREMENT SYSTEM	1,089	-0-	-0-	-0-	00.
01513 MOTOR VEHICLE EXCISE TAX BILLS	41	-0-	-0-	-0-	00.
01515 MOSQUITO CONTROL PROJECTS	105	-0-	-0-	-0-	00.
01516 SUFFOLK EDUCATION CHAPTER	711	-0-	-0-	-0-	00.
01517 SUFFOLK CITY EXTENSION SERVICE	260	-0-	-0-	-0-	00.
Subtotal	2,272	-0-	-0-	-0-	00.
Metropolitan District Assessment					
01531 METROPOLITAN PARKS	4,266	-0-	-0-	-0-	00.
01532 METROPOLITAN AIR POLLUTION CONTROL	57	-0-	-0-	-0-	00.
01533 METROPOLITAN AREA PLANNING	95	-0-	-0-	-0-	00.
01552 METROPOLITAN DISTRICT COMMISSION ASSESSMENTS	---	-0-	-0-	-0-	00.
Subtotal	4,423	-0-	-0-	-0-	00.
M. B. T. A. Assessment					
01551 MBTA ASSESSMENTS	40,830	-0-	-0-	-0-	00.
Subtotal	40,830	-0-	-0-	-0-	00.
TOTAL	\$463,583	\$161,536	\$89,059	\$250,595	54.4%

NOTES TO PRELIMINARY REPORTS
FOR FISCAL 1984 AT DECEMEBER 31, 1983

Settlement of treasury advances and processing of M.A.C.s (Monthly Adjustment of Compensation) will increase the expenditures presented in the schedules. Refunded expenditures will reduce the expenditures and expenditure transfers which have not been processed but relate to transactions prior to December 31, 1983 will reclassify expenditures between departments.

The closing process for the month of December is incomplete and therefore monthly proofs of expenditures have not been performed.

Certain manual adjustments have been made to the numbers to reflect items known to be unprocessed.

Source: Auditing Department

January 12, 1984

NOTES TO PRELIMINARY REPORTS
FOR FISCAL 1984 AT DECEMBER 31, 1983

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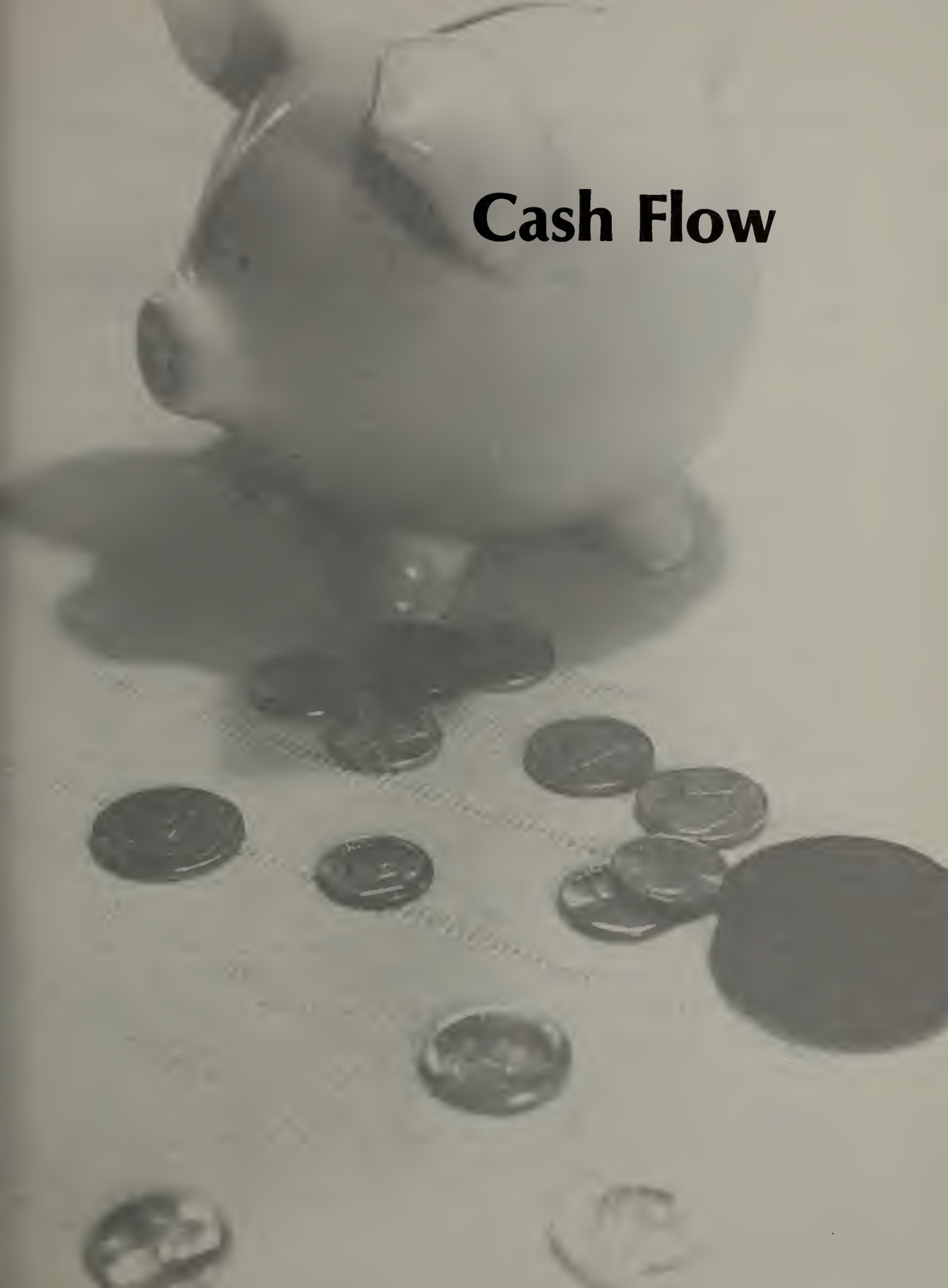
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Source: Auditing Department

January 12, 1984

Cash Flow



INTRODUCTION

Major institutional and political consequences result from the City's cash flow position. The City's vulnerability to the timing of cash receipts and expenditure payments makes cash flow critical to the flexibility of the City's financial operations. In this context, a principal purpose of this chapter is to describe the environment in which the City's current cash position will be judged and the prospective condition of the City's cash operations during the early months of the new Administration.

This chapter will cover a wide range of factors that affect the City's cash flow operations. First, it will define the major components of revenues and expenditures and review the way they determine the City's cash position at any particular time. Second, the chapter will review recent events that have influenced that cash position and developments that will affect the City's prospective cash position, particularly over the remainder of fiscal 1984. Third, the chapter will review the susceptibility of the City's cash flow to outside forces, including State distributions, departmental resources, and the payments of pension funds and prior years' reserves.

It will be important to consider two key elements in this analysis. First of all, there is a substantial difference between cash flow and budget. Cash flow is reality, while budget represents a plan. Furthermore, it is important to understand the factors that made the cash flows for both 1983 and 1984 exceptional, primarily caused by a delay in various aspects of the revaluation process, including State certification. A delay in final completion of revaluation caused the total cash receipts in 1983 to be substantially below those of previous years and the budgeted

amount, while the receipt in fiscal 1984 of 1983 revenues made the cash statement for 1984 substantially larger than would have been expected. Adjustments to both expenditures and revenues, because of the timing of revaluation, have created administrative problems in handling the City's cash condition.

The discussion which follows covers the major changes in each month's cash flow for the period July 1982 through December 1983 and looks at projected cash flows through June 1984. It focuses, in particular, on anticipated changes in the projections within the current fiscal year, including major estimated adjustments, and changes in the aggregates for the total yearly amounts in each category.

MATTERS AFFECTING THE PREPARATION OF CITY CASH FLOWS

Once a month the City prepares a statement of its cash flow for the then current fiscal year. The statements for October, November and December 1983 are attached at the end of this chapter. This cash flow, except as of the end of each fiscal year, consists of both projected and actual cash components by month. Early in the year, most of the monthly statements are prepared on an estimated basis. However, as the year progresses and as each month's actual components are completed, the City's cash flow reflects more actual components than projected ones.

The monthly cash flows are prepared by the Collector-Treasurer's office pursuant to certain loan agreements with financial institutions that have lent the City funds to cover cash shortfalls. (City officials indicate that the City would have refined the cash flow process for purposes of better financial monitoring even without the pressure of

the financial institutions to do so.) Generally, a representative of the Collector-Treasurer's office reviews materials and has conversations with individuals critical to the discharge of City obligations to determine the amount of actual cash that was distributed during that month. This material is compiled, and rolling monthly actual figures are then completed. The Collector-Treasurer's office will, for each item of the cash flow, analyze the necessary adjustments that should occur to each projected monthly amount for each category and for the aggregate total for the entire year. After these actions are taken, the resulting figures are placed in a data pool which is revised from month to month, and a new monthly cash flow is printed from the data pool.

Until recently, the data pool was maintained and revised by hand; it is now partially computerized. However, the data pool still requires a representative from the Collector-Treasurer's office to personally receive information from each of the departments that affects the cash position of the City, and most components of the cash flow are not immediately retrievable from a centralized data source reflecting all City operations. There is no ability to retrieve the immediate condition of total expenditures and remaining estimated payments by category. However, the City has prepared the basic format and the data pool so that a fully computerized system for cash flows could be implemented in the near future.

At present, the City does not routinely prepare a cash flow for the City's capital projects account. (Such a cash flow would present the current levels of bond and bond anticipation note funding and relate those amounts to the capital cash flow requirements.) The only routine information available on the financial condition and operations of

the City's capital projects account consists of the materials presented in the City's annual financial audits. Only general revenue cash flow statements are prepared by the City; however, these cover all City operations except for the capital projects account and directly-funded Federal programs.

BUDGET VERSUS CASH FLOW

It is important to distinguish between cash flow and budget. A cash flow presents the timing implications of expenditure requirements as compared to resources. In simplest terms, a budget is a plan, and cash flow is reality. If a governmental entity's financial operations rely principally on budget, with little regard to cash flow, that entity could face severe financial problems even though it had adopted a well-structured operating budget. While a balanced budget is mandatory for financial integrity, if it is not combined with a sufficient cash flow, the budget essentially becomes useless. While public comment on City finances frequently focuses on budget, the most critical item in the City's financial picture remains its ability to pay for current and prospective liabilities. Only a realistic cash flow can produce the appropriate answers.

POLITICAL, INSTITUTIONAL AND FINANCIAL VULNERABILITY TO CASH FLOW CONCERNS

Any new administration should look at the role that cash plays in maintaining flexibility in policy decisions and financial endurance. Should a city find itself without the capacity to meet payroll or other contractual obligations, it subjects itself to the explicit dictates of outside institutional and political forces. One needs only to

look at New York City beginning in 1975 as an illustration. When New York City was unable to meet its financial obligations on a timely basis, it became subject to pressure by external sources of cash, including the State itself, banks that could lend to the City, the labor unions whose lending capacity or wage flexibility could provide relief, and the federal government, which would provide cash assistance after the State had exhausted its resources. New York City was no longer master of its own fate.

Like New York, Boston's cash flow is vulnerable to forces outside of its control. The City must maintain a constant guard with respect to the potential for erosion in cash resources. The City's current cash flow projection shows it maintaining approximately \$23.0 million as a minimum cash position over the remainder of fiscal 1984 without consideration for increased contractual commitments. This amount is equal to roughly one week of city operating expenditures. In view of the many unforeseen circumstances that can befall a complex government like Boston -- such as court decisions, labor contracts, or an alteration in the timing of pension payments -- which can create cash management difficulties, the City's current cash position is tenuous at best.

On two different occasions recently the State's courts have rendered decisions that hurt the City's cash position. In the first, the court determined that certain commercial properties had been disproportionately taxed and that the City was obligated to repay those affected property owners. The eventual cost of this decision was in excess of \$100 million. Without State assistance, the City's own cash position might have been irreparably harmed. On a more recent decision, the courts determined that the City was required to make certain additional payments to school personnel.

MAJOR FACTORS IN THE CITY'S 1983 CASH FLOW

In fiscal 1983 one important matter dominated the City's cash position: the effect of the revaluation process. The City originally anticipated that revenues from the revaluation would be received early in calendar year 1983. The City's official statement, which was issued when tax anticipation notes were sold, projected that the City would send out tax bills in December and January of fiscal 1983. However, the City experienced a series of delays in receiving certification from the State for the completed revaluation. (The certification was required in order that property tax bills could be distributed and the City could collect the property tax receipts.) During the course of the fiscal 1983 cash flow presentations, the date of anticipated receipt of property tax revenues was extended into the latter months of the fiscal year.

At the same time, another major influence on the City's cash flow occurred as part of the initial tax anticipation note financing undertaken in the fall of fiscal 1983. By the terms of this financing, sufficient monies were required to be escrowed in an account by May 15th to repay the tax anticipation notes, even though the notes themselves were not due until June 30. Thus, the City faced a loss of property tax revenues due to the lack of State approval at precisely the time it required large amounts of funds to satisfy the note payment account requirement.

Accordingly, in early May 1983, the City faced a large cash shortage. In response to the need to fund a note payment account and to finance mandatory operating expenditures through the end of the fiscal year, or until sufficient property tax revenues had been received, the City developed a unique borrowing program. The City relied on

certain borrowed funds from the State to provide adequate monies to meet its note account requirements. To meet operating expenses, the City was able to borrow \$65 million from a consortium of financial institutions under a rather intricate financing arrangement. Under the arrangement the bank notes were due on June 30, 1983. However, neither the City nor the banks fully expected that sufficient money would then be on hand to repay the notes. Both the City and the banks expected to refinance the notes as of June 30th.

Because the City could not legally issue notes beyond the end of the fiscal year, except against uncollected property taxes, it became necessary for the property tax levy to be in place in order to establish an uncollected amount against which a borrowing could occur. Thus a covenant was entered into for the purpose of bank financing, as follows: the City would receive certification from the State in time for the property tax bills to be sent out prior to the end of the fiscal year; and a property tax levy would have been made so that the amount due the City could be established. Subsequent to State certification, and before the notes became due on June 30, the City levied its 1983 property taxes, so that renewal notes could be sold against the uncollected amounts. The renewal notes were then payable in early August of fiscal 1984.

Because of its inability to receive requisite property taxes in fiscal 1983, the City took certain other actions in fiscal 1983 that affected its traditional cash flow operations. Taking the cash flow for January 1983, and that projected for fiscal 1983 and comparing it to the actuals for the entire period through 1983, certain important changes should be identified. First of all, as indicated previously, the property tax differences are substantial:

slightly over \$180 million was actually received, as compared to approximately \$370 million which was anticipated for the year in the January 1983 cash flow. Amounts raised through motor excise tax and federal revenue sharing differ by only a few thousand dollars. State distributions were received as expected. City department receipts were slightly less than anticipated. Health and Hospitals receipts were reduced by about \$7 million. Reimbursements for non-revenue expenditures were \$10 million less than expected. Tax anticipation notes were substantially greater than anticipated, and the income from Tregor reimbursement was approximately \$5 million greater than expected in January.

With respect to disbursements, while the City altered the format in general government personnel and non-personnel items as well as school expenditures over the course of the year, precise comparisons can still be made in comparing the January 1983 cash flow to the actuals presented for the fiscal year following June (fiscal 84).

Because of the shortage of cash in late 1983, certain general government personnel and non-personnel expenditures were delayed or reduced in fiscal 1983, so that these expenses fell well below the levels anticipated in the January cash flow. There are other items that can be compared as well. The actual payments for prior years' reserves were \$15 million less than had been anticipated. Debt service was the same for both cash flows. State assessments were as projected. Pension costs were down by approximately \$50 million, from \$85 million to \$34.5 million. Non-revenue expenditures (operating funds used for capital construction projects) were increased by approximately \$2 million. Property tax abatements were approximately \$3 million less than had been expected, with the final figure at \$17 million. And because of the large refinancings at the end of the

year, the payment for total tax note obligations was substantially greater than had been anticipated. In January, the tax note obligation amount was projected at \$67.7 million, but at year-end, \$197.9 million had actually been paid.

With the exceptional characteristics of the large 1983 property tax revenues received in fiscal 1984 and the substantial 1983 pension payments made in fiscal 1984, it is important to recognize the volume related to short-term borrowing that occurred in fiscal 1983. In October of 1982, approximately \$63.8 million in tax anticipation notes were issued to be repaid in June 1983. It was expected that this amount would be enough to cover any cash shortfalls for FY 1983.

However, as discussed above, the requirement that the City finance the note payment account in May of 1983, taken together with the need to cover certain expenditures for certification, made it necessary to issue an additional \$130 million of notes in May, with half to be held by the State and half by the consortium of financial institutions. The \$65 million of notes held by the financial institutions were refinanced in June 1983 to be repaid in August of fiscal 1984. Therefore, the City issued \$258.8 million of tax anticipation notes for fiscal 1983, a figure substantially higher than at any time in recent years.

It should also be noted that because of the large amount of cash received by the City in early fiscal 1984, the City had difficulty in showing a cash flow deficiency, as required by the regulations of the Internal Revenue Service in order to sell tax anticipation notes in fiscal 1984. As a result, rather than the conventional \$65 million tax anticipation notes during fiscal 1984, the City issued only \$25 million. These notes come due in May 1984 in the amount

of \$25.8 million. Excluding the payment of bond anticipation notes, the total amount of notes to be paid in 1984 will be \$91.3 million, still higher than the \$65 million that the City had issued three out of the five years prior to fiscal 1983. This figure for 1984 note issuance does not take into account the sale of bond anticipation notes in the amount of \$25 million which were issued in early fiscal 1984 to finance a series of capital construction expenditures.

To repeat, the three major elements causing the exceptional nature of the fiscal 1983 and 1984 cash flows are the impact of revaluation on the collection of property taxes, the handling of pension payments, and the unusually high level of note borrowings, in particular tax note obligations.

THE PROSPECTIVE 1984 CASH POSITION

The factors described above had, in many respects, an opposite effect on fiscal 1984. As a result the total cash in-flow and out-flow for 1984 will be substantially larger than for fiscal 1983 and other recent years. For example, total property tax collections in 1984 are expected to aggregate about \$511 million, with slightly less than 40% of these revenues coming from the fiscal 1983 property tax levy collected in 1984. It should be noted that there have been delays in the distribution of the tax bills for fiscal 1984, also the result of a delay in State certification. Thus, the cash flow position of the City was thinner in November and in October than had been projected. For example, in August of 1983, the City projected that the current levy receipts would amount to approximately \$37.8 million in October and \$117.6 million in November. However, actuals received through November amounted to \$131,000 in October

and \$20.1 million in November. These reduced payments contributed to significant adjustments in expenditure levels in early 1984. This was accomplished principally through a reduction in pension expenditures in which approximately \$17 million in pension payments were expected to be made in October, but were delayed to be made in January 1984.

The early November cash flow presented by the City's Collector-Treasurer indicated thin cash balances for February and March 1984. In each case, the cash balance was less than \$20 million, equivalent to one week's average City operating expenditures. However, on December 29th, the City produced another cash flow which showed larger cash balances for February and March. The cash flows also showed higher balances for April and May than had previously been projected. There were several reasons why these results occurred. While there were certain changes in revenues, the most important adjustments were on the expenditure side.

With respect to revenues: hospital revenues, property taxes, and City department revenues (including garage sale proceeds), among others, were received at a higher level than had been projected in the earlier cash flows.

Certain major elements involved expenditure changes. First, the earlier cash flow estimate assumed a \$17 million pension payment in November. In actuality, however, no payment was made. In addition, the earlier cash flow assumed the payment in November of prior years' reserves in the amount of approximately \$9 million. However, the actual payments for prior years' disbursements amounted to slightly over \$1 million. Moreover, actual school expenditures were approximately \$3 million less than had been projected. In sum, the November cash flow showed

total expenditures for November in an amount of \$107 million, while actual expenditures for November were about \$27 million less.

For December, prior years' reserves had been projected in the earlier cash flow at \$38 million. Property tax abatements had been assumed to be \$2.5 million in the earlier cash flow but were actually \$15.8 million. Most important, pension payments were assumed to be in the amount of \$17.1 million in November and \$34.1 million in December. However, these payments were assumed in the later cash flow to be deferred to January. For December under the new cash flow, total expenditures were expected to amount to approximately \$72.5 million, while the earlier cash flow had assumed expenditures of \$124 million, producing a reduction of about \$51.5 million. In total the December cash flow produced an ending cash balance of \$237.6 million compared to \$146 million expected as of the end of December under the earlier estimate.

Other factors which should be considered involve an anticipated reduction of \$30 million in payments for prior years' reserves. This reduction occurs in part because the accounting for certain prior years' pension payments was shown previously in both the prior years' reserve category and in the pension costs category. The new cash flow also presents a modest increase of \$2.5 million from non-revenue disbursements (payments made out of the operating budget for capital purposes). In total the aggregate cash available for the year shows a rise from \$1.102 billion to \$1.113 billion, while total disbursements for the year also rose from \$1.113 billion to \$1.120 billion.

Certain other adjustment in the December cash flow changed the cash position as presented in November. For

example, the earlier cash flow had assumed property taxes from the current levy in the amount of \$7.7 million and \$150.4 million in November and December respectively; however, in the later cash flow, with actuals available through November, current year levy collections were in an amount of \$20.1 million in November and \$138 million in December. Another factor that bears note is that in November the City actually received \$9.8 million in State aid rather than the \$19 million projected in the November cash flow statement. Further, the City is projected to receive \$108.6 million in December as compared to \$99.3 million assumed in the earlier cash flow.

A series of factors will impact upon the ability of the City to achieve the cash flow results projected in the December 29th statement. Many of the revenues are subject to substantial change, but the following revenues should be fairly stable, except for unforeseen events. Total property tax collections will probably aggregate approximately \$520 million. Federal revenue sharing is expected to be received in the amount of \$18 million. State distributions have been confirmed by the State at \$311 million. Other revenue sources that tend to be more subject to change are City departments receipts at \$65.6 million; Hospital Department receipts at \$110 million; parking fines at \$26.3 million; and motor vehicle excise taxes at \$7.6 million. Proceeds from the sale of City garages in the amount of \$22 million were received in December and have been added to other receipts in the City departments revenue category.

Generally expenditures of the City are more difficult to project, or at least currently are more uncertain, in part because of the continuing wage negotiations. Total general government personnel and non-personnel expenditures, including City and school, are expected to aggregate

\$612.4 million, as opposed to the actual expenditures of \$580.4 million in fiscal 1983. Personnel deductions, including Blue Cross/Blue Shield, federal and state withholding, credit union, and related amounts, are expected to aggregate \$163.8 million as opposed to the fiscal 1983 amount of \$152.9 million.

Total general government expenditures are expected to increase by \$9.5 million from \$121.5 million to \$131 million. General government school expenditures are expected to rise to \$50 million from \$44.2 million in 1983. County expenditures will rise between \$1 million and \$5 million. And prior year reserve amounts will rise substantially from \$20.9 million in 1983 to \$80 million in 1984. The major rise in prior year reserve payments results from a delay in making vendor and other payments at the end of fiscal 1983 due to the cash shortage. Thus, there is a backlog of warrants payable and monies due for the reserves for encumbrances which must be paid in fiscal 1984. Debt service will decline from \$69.5 million to \$66.8 million. State assessments will rise to \$47.5 million from \$46.3 million. Pension costs, as previously mentioned, will amount to \$151.7 million as compared to \$34.5 million in 1983. Non-revenue expenditures (or capital expenditures made from operating funds) will rise from \$5.9 million to \$10.2 million. And property tax abatements, which will include both Tregor and non-Tregor payments, are expected to increase from \$17.1 million to \$60 million. It should be noted that if further borrowing is needed in fiscal 1984 in the form of tax anticipation note issues, the tax note obligations could increase beyond the \$91.3 million currently projected.

ADEQUACY OF 1984 CASH POSITION

It is difficult to determine specifically the amount of cash that the City should have on hand at any particular point. This conclusion is a function of the size and timing of outstanding liabilities and the ability to call upon external sources of capital in order to meet unanticipated expenditures.

In general, municipalities that have a high credit standing will more easily borrow funds than cities with low credit ratings. In this respect, municipalities with low credit ratings, such as the City of Boston, should have higher amounts of cash on hand. At the same time, it is important to recognize that the City has enjoyed support from major financial institutions. During recent years, whenever the City has required borrowed funds to cover legitimate cash flow needs, these institutions have been willing to provide them. However, because of the thinness of the market for City obligations, the City would be especially vulnerable to a decision by any one of these institutions not to provide the necessary monies.

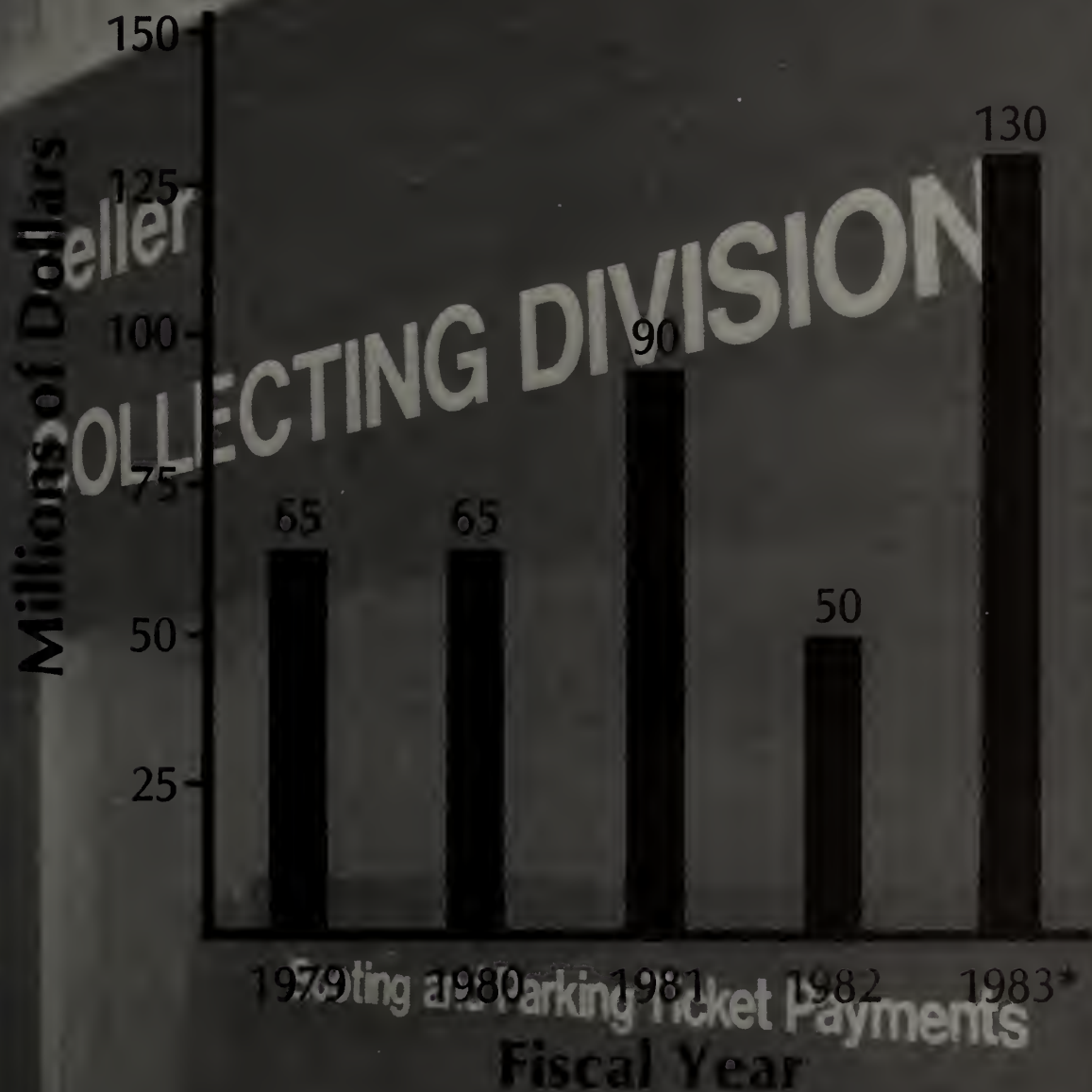
The most recent cash flow indicates that in February the City will have a cash balance of \$34 million and in March, a cash balance of \$23.1 million. These amounts are equal to slightly more than one week of City operating expenditures. This cash position is adequate if the City does not experience exceptional financial or cash flow drains. However, while 1983 and 1984 were exceptional because of the revaluation process, it is reasonable to assume, based on recent years, that unusual circumstances frequently harm the City's cash position.

Over the recent past, each of the following events created difficulties for the City's cash flow. Proposition 2-1/2 reduced the availability of revenues. Tregor and related cases increased expenditures for tax abatements by well over \$100 million; and other recent court decisions increased the liability level of the City in other areas. All of these occurred in the wake of the effects of revaluation. It is not enough to have sufficient resources to cover normal operating requirements. There should be funds immediately available from external sources, which can be used to cover any unanticipated cash expenditures. This approach means the City must rely on a group of financial institutions knowledgeable in the City's financial operations and willing to lend in the face of difficult, but temporary, credit problems. History has proven that unusual circumstances frequently do arise for Boston. If they do so again, the City cannot rely exclusively on internal funds to cover the remainder of the cash requirements for fiscal 1984.

BORROWING PROGRAMS TO FINANCE CASH SHORTFALLS

The City has consistently followed a policy of maintaining access to the financial market in order to raise funds sufficient to cover any shortfalls that may exist in the City's cash position. In general, when an unexpected cash shortfall occurs or when it has been necessary for the City to sell tax anticipation notes early in a fiscal year to cover prospective cash shortfalls during the course of the fiscal year, the City has, over the recent past, borrowed from a small group of financial institutions, although one recent cash flow borrowing of \$65 million was sold in the public market (in the fall 1982).

Short Term Tax Anticipation Borrowings by the City of Boston Since 1979



*Does not reflect refinancings

Special credit arrangements were made for the public market sale (e.g., pledge of State aid, security interest assigned, etc.) In general, however, the credit support employed to repay debt obligations incurred by the City in order to raise funds to pay current expenditures has been twofold in nature. First, the City has pledged its full faith and credit to raise sufficient monies to repay principal and interest on maturity date. Second, the financial institutions have relied upon the tax receipts that were expected to be available on or around the day the borrowing matured. Because historically the City has had sufficient funds on hand and assigned those funds in a reasonable manner to repay indebtedness, the City has been able to borrow adequate monies to cover cash flow shortfalls when they have developed.

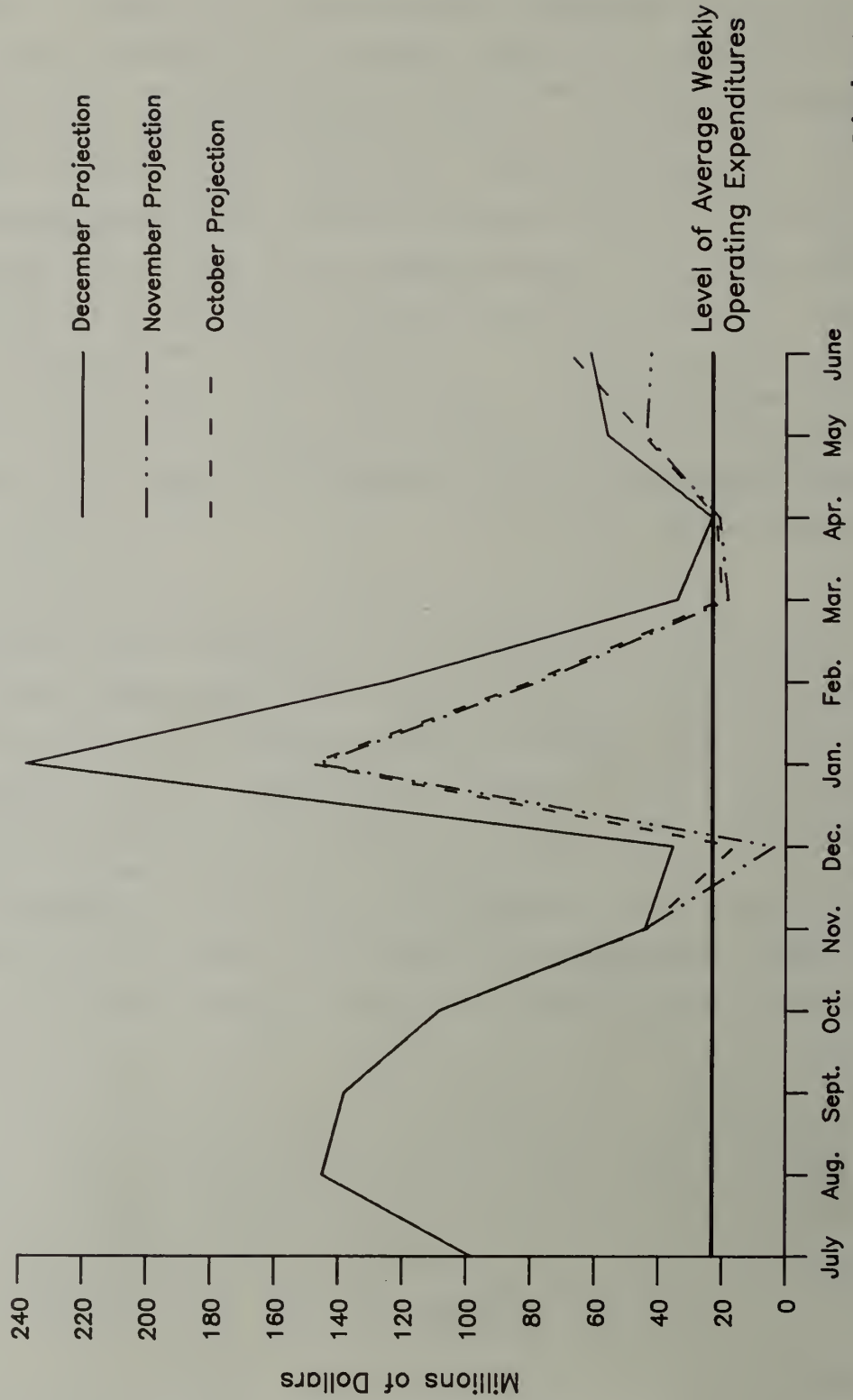
Prior to fiscal 1979, the City sold notes early in the year against property tax collections in November and then sold them again soon after the November collections against the collections anticipated in May. This process was time-consuming, not cost-effective, and reduced investment income that would otherwise have been available to the City. In compliance with the regulations of the Internal Revenue Service, the City initiated a borrowing program in 1979 which has been repeated each year subsequently. Rather than selling two debt issues in the fiscal year, the City has sold one issue early in the fiscal year against the second set of tax collections. This reduced the transaction costs (e.g., legal expenses, printing costs, etc.) associated with short-term borrowing and allowed the City to utilize the revenues received in November more fully, including investment throughout the remainder of the fiscal year.

A second reason for the change in the months against which the borrowing occurred was the fact that

short-term lenders are more inclined to purchase obligations that are of longer duration than the three to four-month maturity available under the previous format. It should be emphasized that the City sells securities at a tax-exempt rate, and unless related revenues are needed for meeting cash flow requirements, they can be invested at taxable rates with the resultant interest rate differential between tax-exempt and taxable rates accruing to the City's benefit. IRS regulations currently allow the City to sell debt equal to the amount of the projected maximum monthly cash flow deficiency plus the following month's expenditures. Therefore, at the time the city sold its initial tax anticipation notes for 1984, it could only justify a borrowing of \$25 million.

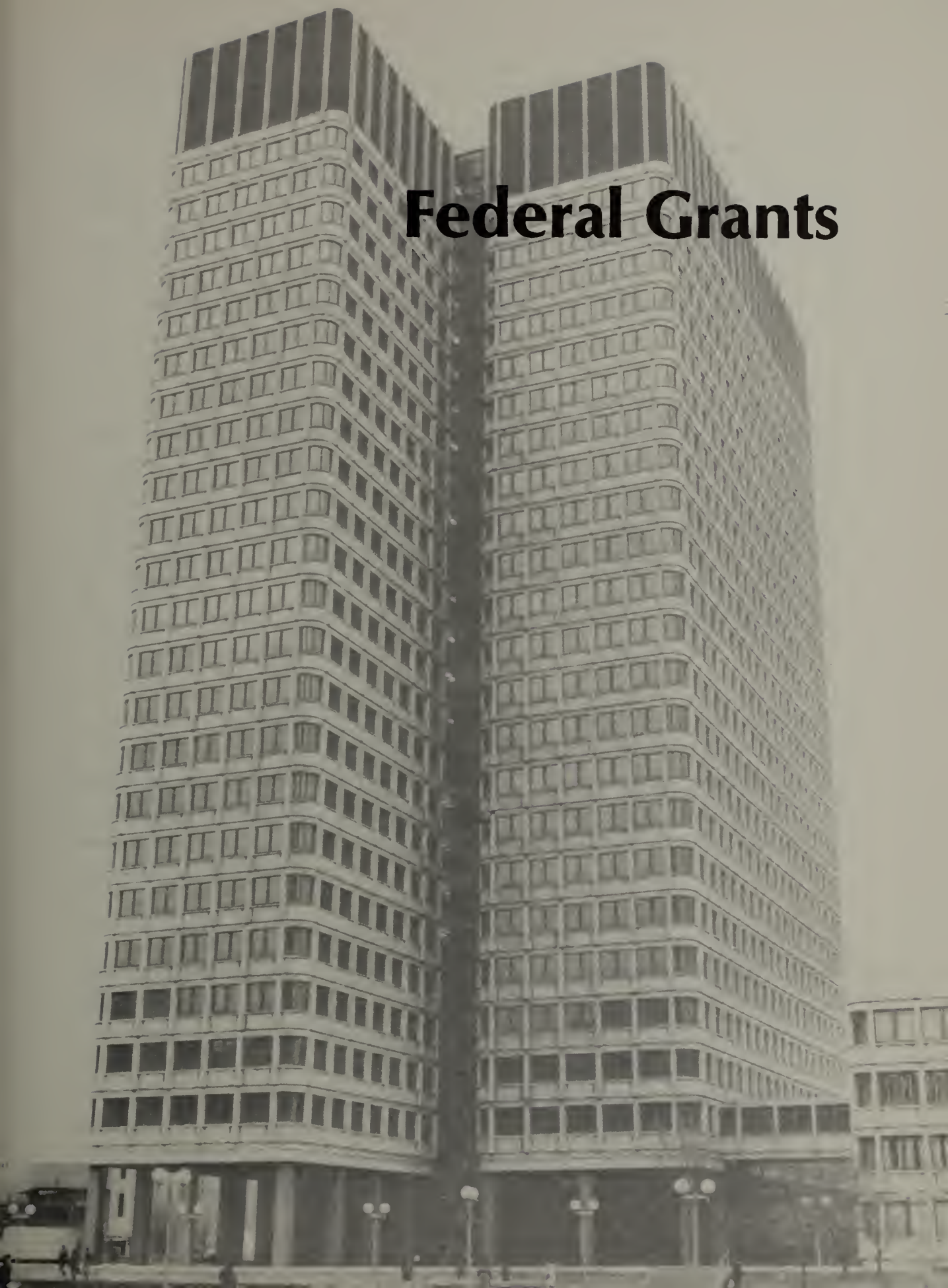
Over the last five years, the City sold tax anticipation notes in the following amounts: for 1979 and 1980, \$65 million; for 1981, \$90 million; for 1982, \$50 million; and for 1983, \$258.8 million. Except for 1983, when extraordinary events arose, as discussed herein, these amounts have, over this period, represented a major decline in the size of annual borrowing of tax anticipation notes. In large part, this decline results from the issuance of debt against a changed maturity date, but it also represents greater stabilization in the City's cash position.

City of Boston General Revenue Cash Flow Statement Fiscal Year 1984



Display 2

Federal Grants



INTRODUCTION

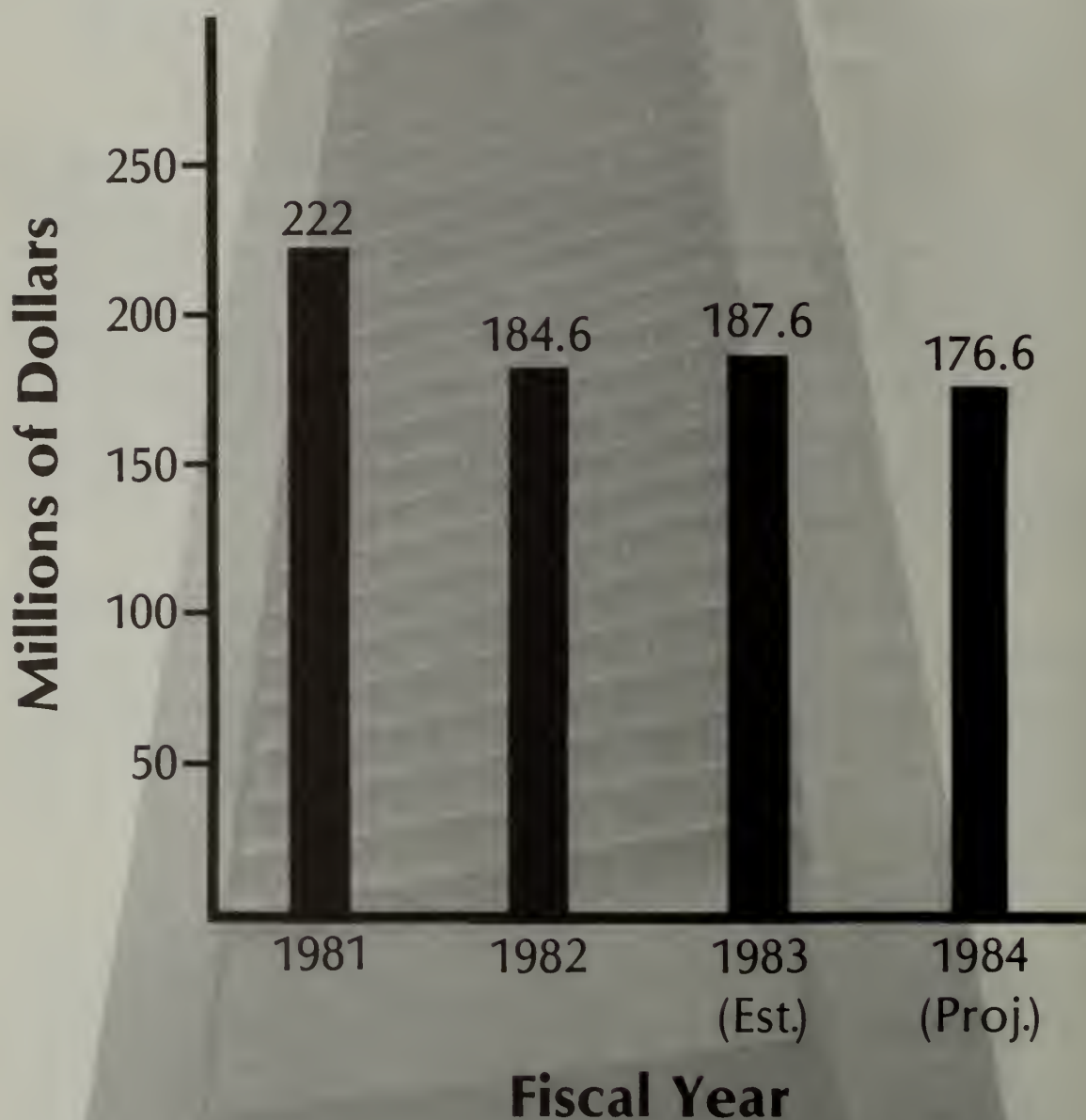
If tomorrow the federal government stopped giving federal aid to Boston, the City would have to increase its budget by 17% to maintain present levels of service -- an impossible task. The City simply could not afford to compensate for the loss of federal dollars. Therefore, it is important to realize the impact of federal dollars on Boston's financial stability.

Boston has little control over federal cutbacks in assistance to the Northeast resulting from policy decisions, as well as population shifts to the Southwest and Rocky Mountain states. Yet, the City relies on federal dollars to fund programs such as economic and urban development, education, employment and training and social services. The loss of federal money means either decreases in levels of services provided by affected programs, or the City's operating budget must somehow compensate.

In FY 84 Federal receipts will have declined 6% since FY 83, 4% since FY 82, and 20% since FY 81 (see Display 1 on the following page). The largest cutbacks in funding from FY 81 to projected FY 84 are for education (24% decline), employment and training (75% decline), and mass transit (82% decline).

There are three types of federal assistance and grant programs that provide funds to Boston: General Revenue Sharing, Categorical Grants, and Block Grants. Through the Department of Treasury's General Revenue Sharing program, funds are allocated to the City based on several factors, including population and tax effort, with minimal restrictions on how the money can be expended. Categorical grant funds are allocated by several federal agencies for

Boston's Federal Receipts



specific programs, and can be "formula" or "project" grants. Funding for formula grants is determined by the government based on a statutory formula accounting for the population and per capita income of the targeted area; an example is funding for public libraries. Funds for project grants are generally of limited duration; an example is disaster assistance funds.

Beginning in 1966, Congress enacted Block Grants, which are consolidated Categorical Grants, to allow local governments greater discretion with allocation of funds. The grant that provides the highest total federal receipts to Boston is the Community Development Block Grant (CDBG). The Job Training and Partnership Act (JTPA) is especially important for the services it can provide. Funding for these programs is based on a statutory formula that accounts for factors such as total population and percent at the poverty level.

The amount of federal aid available to the City in any given year includes not only the fiscal year appropriation but also the funds that are still available from the previous years' allotments. The availability of federal funds from all sources is therefore dependent not only on the federal government's yearly allocation but also on the process behind the flow of funds within the City, including contracting, drawdown, and the final auditing report. These processes will be explained herein.

In this chapter, the CDBG funding program in Boston will be used as an example of the federal granting process.

THE COMMUNITY DEVELOPMENT BLOCK GRANT PROGRAM

The CDBG program is Title I of the Federal Housing and Community Development Act of 1974, funded under the Department of Housing and Urban Development (HUD). The program's objective is the "development of viable urban communities by providing decent housing and suitable living environment and expanding economic opportunities, principally for persons of low and moderate income".

Each year, funds are allocated to entitlement cities, which must have a population over 50,000, according to a statutory formula based on total population, percent of same at poverty level, and extent of housing overcrowding.

Funds may not be used for government facilities, arenas for spectators, schools, airports, hospitals or general government expenses. They may be used for acquisition of real property for rehabilitation or conservation, installation of public facilities, rehabilitation of buildings, special projects for the elderly and handicapped, and costs for administration and planning of community development activities. There is an administrative cap of 20% and a 10% cap on CDBG funds spent for public services.

In Boston, the Neighborhood Development and Employment Agency (NDEA) is responsible for the management of CDBG funds. Boston has attempted to fulfill CDBG objectives through a variety of projects. With CDBG funds, which leveraged over \$18 million in private investment, it rehabilitated over 1,300 dwelling units in FY 82 and 1,180 in FY 83. CDBG money has been spent to revitalize commercial areas, provide security at public housing projects, and support human service organizations.

The 10% cap on funds for public services has been an important issue for NDEA. HUD gave the City a waiver on this cap for several years but warned that the level of public service expenditures must be reduced to 10% of the yearly grant by FY 85. NDEA spends approximately \$3 million yearly to reimburse payroll and overtime costs for the Boston Police Department for police patrols at 23 Boston Housing Authority developments. This money was filtered through the BHA's modernization programs. HUD had agreed to this in the past, but the future is uncertain. If HUD does not agree to such an arrangement, NDEA has said "there could be a crisis for public services" because NDEA will not be able to absorb these costs in their public service outlays. (NDEA does take the position that the Police Department should be absorbing this cost, not CDBG funds.)

Pre-Application/Application Procedure to HUD

After NDEA gives public notice, public hearings are held beginning in February to solicit citizen input on the spending of CDBG funds. These hearings are recorded and transcribed. The proposal that NDEA submits to HUD certifies there was citizen participation. NDEA then develops a plan and in April submits an appropriation application to the City Council for review. If there are no objections, by mid-May the City Council will have granted authority to apply for the funding. Expenditure orders are re-submitted to the Council for review and approval through July. The final one-page statement will then be sent to HUD.

Award Process

From February through the end of April, Requests for Proposals are issued by NDEA to non-profit organizations, area businesses and units of government. Proposals are submitted to NDEA and awards are made. In May, negotiations are held with the non-profit organizations and NDEA begins to process the awards to completion. In June, the Grant Agreement is signed, the Letter of Credit is received and appropriations are established. Between June and July, contract documents are assembled and processed to completion.

Awards to Boston

CDBG funds account for approximately 10% of federal receipts in Boston, the largest single source of federal funds. In FY 82, Boston received approximately \$25.8 million in CDBG funds. In FY 83, the City recommended \$23.2 million. However, the City only received \$18.1 million, due to a \$1.2 million reduction by HUD because of previously disallowed costs and \$3.9 million in questioned costs. (See the Auditing chapter of this document for complete analysis of this audit.) NDEA reports that FY 84 CDBG grants total \$22,943,000. The breakdown is as follows:

CDBG Entitlement

- Housing	\$11,975,000
- Fair Housing Commission	550,000
- Commercial and Economic Development	3,429,000
- Human Services	2,950,000
- Planning and Administration	4,038,600

CDBG Emergency Jobs Bill

- Boston Resident Construction and Job Training	\$2,174,000
- Rental Rehabilitation	365,000
- Commercial and Economic Development	1,781,000
- Planning and Administration	1,080,000

The Emergency Jobs Bill will provide added funds for CDBG activities. Yet, overall, CDBG funds are expected to decrease in the future.

Contracts/Disbursement of Funds

HUD grants Letters of Credit to NDEA, and a CDBG account is set up each year. NDEA then subcontracts the CDBG money it receives. Each potential subgrantee must submit a Certified Financial Statement before it receives the contract. After the contract is negotiated with a subgrantee, NDEA draws up an award letter and encumbers part of the money. After the award letter is approved, the contract is executed and the encumbrance is increased to the full amount of the contract.

Drawdown

When funds are required, an invoice is submitted by the contractor to NDEA, and the drawdown process begins. The drawdown document is initiated when an approved warrant is generated by the City Treasurer's Office. Funds are then removed from the account and disbursed. HUD requires that all cash be disbursed within a certain amount of time after receipt of drawdown money, depending on the type of payment program. Presently, NDEA is trying to initiate the drawdown process during the Accounts Payable Cycle and to time the receipt of cash to date of approved warrant. This would, if implemented, reduce the payment process by approximately seven to ten days.

CDBG DRAWDOWN PROCESS

PAYMENT PACKAGE APPROVED
BY APPROPRIATE DIVISION --
RECEIVED IN FISCAL OFFICE

PAYMENT PRE-AUDITED BY FISCAL
AND ENTERED INTO 1-2 days
ACCOUNTING SYSTEM

ORIGINALS TO MAYOR'S OFFICE
FOR DEPT. HEAD APPROVAL
FORWARDED TO AUDITING

AUDITING ENTERS PAYMENT
IN A/P SYSTEM --
WARRANT CREATED AND 2-4 weeks
SIGNED BY MAYOR

TREASURY RECEIVES SIGNED
WARRANT -- CASH REQUEST
SENT TO NDEA FISCAL

DRAWDOWN INITIATED
BY NDEA FISCAL 7-10 days

CASH RECEIVED
VENDOR PAID

Contract Process - Financial Implications

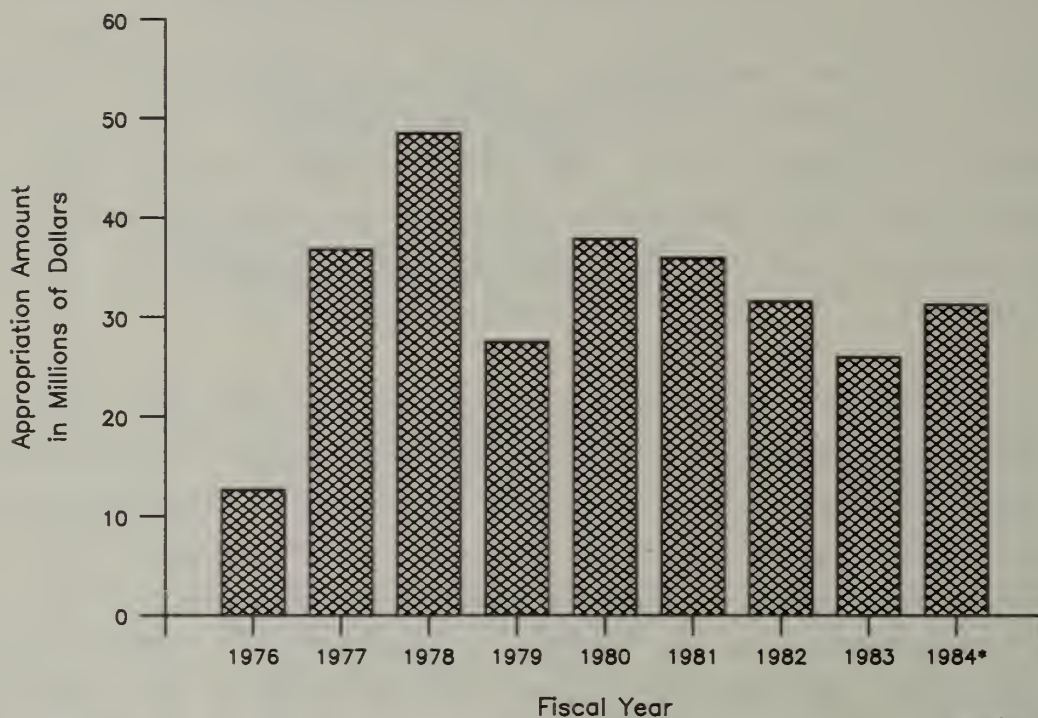
In NDEA's view, there are a number of problems in the contracting process. First, money is often encumbered but not drawn down or expended. The Appropriations Management Report provides totals of unexpended balances, unliquidated encumbrances (money that is unencumbered but not spent) and unencumbered balances (money in the account that has not yet been committed to any project). However, a close analysis of each contract made with CDBG funds for the

fiscal year is needed before an opinion can be formed as to exactly how much money is available from a previous year's allotments. The unencumbered balance money may be available and some of the unliquidated encumbrances which represent money tied up in contracts that are not moving forward may be able to be redirected. NDEA recommends that people trained in contract administration establish this kind of contract analysis as a priority. The stipulations and payment plans for each contract must be analyzed so that a determination can be made about which contracts can be closed out.

Second, NDEA suggests exploring options such as "float" loans which would allow federal money to be loaned, to draw interest, and to be paid back over a short period of time. This would require careful coordination with the Treasury Department. Third, one method for increasing the money available is to cancel contracts or penalize sub-grantees if productivity levels fall below the expected level. NDEA believes large sums of money would then become available. But until an examination is made of the contracts, no estimate could be made as to a possible amount.

Another contracting problem is presented in the Audit Report of June 1982 by Zafarano, MacDonald and Savy. This report states that "the City is losing the use of federal funds and incurring an unnecessary interest cost for some period of time as a result of its failure to process valid reimbursable grant claims on a timely basis". They recommend that the open invoice be received monthly so all invoices will be processed. NDEA agrees that the contract process is slow and, indeed, costs may be incurred because of timing of payments. The payment process should be improved to protect scarce federal dollars.

CDBG Allocations to Boston



*Includes \$5.4 million allocation from the Federal Jobs Bill

Display 2

Monitoring

HUD provides monitoring reports to NDEA each year. The reports contain recommendations as to how to improve management of CDBG funds and suggestions for corrective measures for problems that HUD has identified. Unless NDEA makes some of the corrections, HUD can judge NDEA's management to be inadequate. This can result in the disallowal of costs if HUD feels that NDEA failed to correct the problem.

NDEA's Compliance Division is responsible for monitoring subgrantees' performance. However, it would be beneficial if an ongoing monitoring system were developed to review subgrantees' accounting systems both prior to and during the contract. Subgrantees' violation of grant procedures would result in disallowed costs which the grantee is required to absorb.

Post Financing Reports

The NDEA is responsible for the CDBG funding process from application to final reporting to HUD. Compliance audits are performed each year by independent Certified Public Accountants. Earlier, the federal government performed audits on CDBG programs. However, because of federal cut-backs, they no longer perform this function.

The only outstanding audit was performed by the Regional Inspector General for Audit for the period 7/1/79 through 1/31/82. As a result of this audit, \$3.9 million was held up in questioned or disallowed costs. The audit focused on CDBG funds expended on non-CDBG activities, inadequate performance on housing projects, inadequate contracting procedures for professional services, failure to implement monitoring consultant's recommendation, accounting for reimbursements, and questionable payroll practices. The City reimbursed the grantee for disallowed costs, none of which was restored, according to the Zafarano, MacDonald and Savy Audit Report, 1982. NDEA is waiting for a final decision from HUD on whether the \$3.9 million will be released to the City.

When there are "questioned" costs by HUD, NDEA must respond, providing documentation to HUD on how the money was spent. If questioned costs become "disallowed," then the money must be paid back or HUD will reduce the next year's Letter of Credit. CDBG funds cannot be used to pay back any disallowed costs. (For an analysis of ongoing federal audits, see the Auditing chapter of this document.)

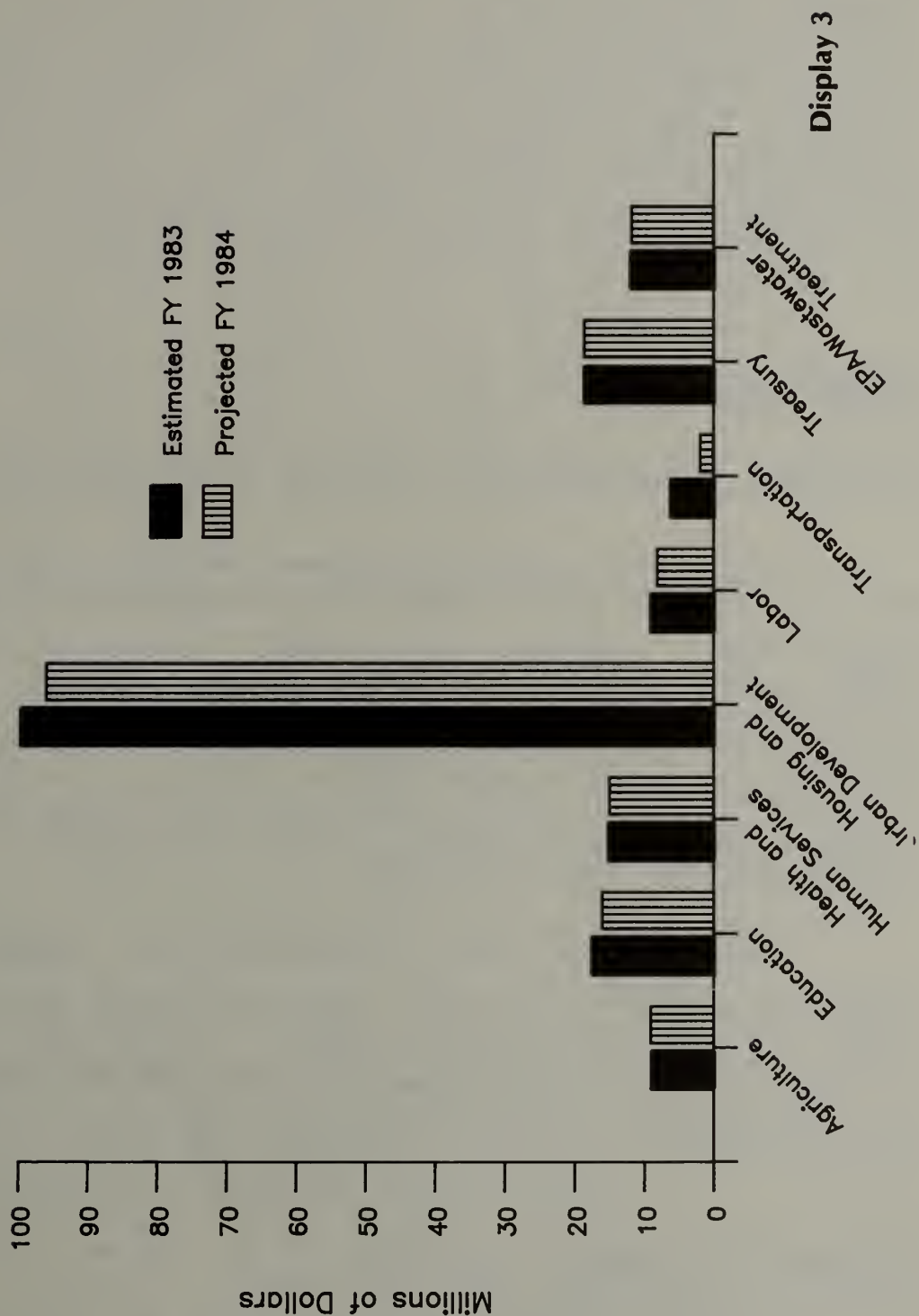
This entire process from the pre-application stage to the audit is repeated each fiscal year for each of the ten or so federal departments and agencies that provide funds to the City. The contributions of other federal agencies to Boston's financial stability are discussed below.

OVERVIEW

The Office of Inter-governmental Relations' report dated March 1983 on The Impact of President Reagan's Proposed Fiscal Year 1984 Budget on the City of Boston provided the amounts of actual receipts for FY 81, FY 82, estimated receipts for FY 83, and projected receipts for FY 84. These figures are based on budget profiles submitted by the City departments to that office. The level of accuracy varies among departments because of differing accounting procedures. Furthermore, the three levels of government operate on different fiscal years, making verification of federal receipts problematic at any given time. A central system should be considered to track federal funding beginning at the point that the Mayor signs the proposal.

The March 1983 report provides information on the City's federal receipts for the past three years and the impact of future cutbacks on levels of service. Total FY 83

Comparison of Boston's Federal Receipts by Funding Source: FY 1983 - FY 1984



Display 3

federal receipts were \$187.6 million. In FY 84, total receipts may drop to as low as \$176.6 million. Service levels will decline with the loss of federal money. All cuts in federal funds will not be made up through the City's operating budget. However, information on the trends in grant money to Boston can be used to help the City determine priorities for the future, including which services can be cut and how the City can afford to maintain others.

FEDERAL AGENCIES

Department of Agriculture: Projected FY 84 - \$9.0 million

The Boston School Department receives money for the National School Lunch Program which supplies lunches to needy school children. The School Department received approximately \$8.3 million in FY 83, an increase of 9.1% from FY 82. Approximately 35,000 students were served in FY 83. The projected receipt for FY 84 is \$8.3 million, an increase of .6%. Service levels are not expected to increase, however, due to inflation.

Neighborhood Health Centers receive federal funds channelled through the State for the Feeding Program for Women, Infants and Children (WIC). In FY 83 receipts totalled \$651,000, a decrease of 5% from FY 82. Funds and service levels are expected to remain the same in FY 84 or decline.

Department of Commerce: Projected FY 84 - \$0.00

Boston receives Title III funds from the Economic Development Administration (EDA) for studies on economic development, such as plans for the Boston Redevelopment

Authority, and Title I and IX funds for construction of facilities in low growth areas. In FY 81, Boston received \$4.7 million in Title I funds. With these funds 362 jobs were generated for renovation and rehabilitation programs at the Boylston Building and the Boston Marine Industrial Park. In FY 82 Boston received no Title I or IX funds, and in FY 83 no Title I funds. Receipts fell to \$149,000 in FY 83. In FY 84, Boston is not expected to receive any funds because of the Reagan Administration's opposition to the EDA. The elimination of this program could damage the City's economic revitalization efforts. Cuts could force termination of present employees and reduce future employment opportunities.

Department of Education: Projected FY 84 - \$16.0 million

The Boston School Department receives Title I funds from the Compensatory Education for the Disadvantaged program. In FY 83, Boston received \$11.8 million, an increase of 4.2% since FY 82. The projection for FY 84 is \$11.2 million, a decrease of 4.9%. Service levels will decrease through FY 84, and there will be a loss of service for approximately 754 students since FY 83 and 2,132 since FY 81.

The School Department also receives funds for Adult and Vocational Education programs. In FY 83, the Department received \$1.6 million. In FY 84, Boston is expected to receive only \$961,000, a decrease of 39.3% a consequent loss of 1204 students in adult education programs.

Bilingual programs are also supported by federal money. In FY 83, Boston received \$560,000, an increase of 4.3% from FY 82. However, 1984 funding is expected to drop to \$375,000, down 33%. This decline could be significant to Boston's educational budget. Through the past few years,

profiles of Boston student populations reveal an increasing number of students dependent on this program, and with cuts the Department will not be able to fulfill the demand without rebudgeting.

Department of Health and Human Services: Projected
FY 84 - \$15.0 million

The Commission on the Affairs of the Elderly receives Title III B and C funds through the State as part of the Older Americans Act. These programs provide many services to the elderly, including transportation, low cost meals, and funds for direct support of centers for the elderly. In FY 83, receipts totalled \$2.9 million, an increase of 6.3% from FY 82, but in FY 84 receipts are projected to decline 5.1% to \$2.8 million. Service levels are expected to decrease by 9% in FY 84, a reduction of service to 2,470 people.

Funding and service levels for programs such as the "Alcohol, Drug Abuse and Mental Health," "Maternal Child Care," "Preventative Health" and "Primary Care" block grants are expected to remain at current levels.

Department of Housing and Urban Development (HUD):
Projected FY 84 - \$95.9 million

This department provides more funds to the City than any federal agency. In FY 84 the City is expected to receive \$95.9 million, a 4% decline from FY 83. While total federal support decreased between FY 82 and FY 83, funds from HUD increased relative to other federal receipts. In FY 81, HUD receipts were 45% of total federal receipts; by FY 83, they were 53% of total.

Urban Development Action Grants (UDAGs) are awarded through a competitive process to localities that generate economic growth and jobs in distressed areas. Boston received \$13.6 million in FY 83. This amount is expected to remain the same in FY 84. UDAGs are expected to generate 4600 construction jobs and 11,000 permanent new jobs, and to provide continued funding for 3400 existing jobs. Projects have included the Charlestown Navy Yard and Westland Avenue Apartments.

Boston receives funds under the Section 8 Assisted Housing Program for low-income families. Funding in FY 83 was \$2.4 million, a 27.4% decrease from FY 82. The projected receipts for FY 84 are \$1.4 million, a 43.7% decrease from FY 83. There has been a significant cut in the City's receipts for this program and a continued decline would hurt the City's ability to provide housing for low and middle income families.

The Boston Housing Authority receives Public Housing Operating Subsidies for cost differences between rental income and total operating expenses of federally aided low-rent housing programs. In FY 83 receipts totalled \$37.4 million, an increase of 5.3% from FY 82. The projected receipts for FY 84 are \$45.3 million, an increase of 22%. According to the BHA, approximately 39,000 people live in Boston in housing units subsidized by this money.

The BHA also receives Public Housing Modernization funds to supplement the costs of the existing public housing projects, including capital improvements, repairs, and improved management and planning. In FY 83 Boston received \$22.4 million, up 43.8% from FY 82. However, it is estimated that in FY 84 total receipts will be only \$12.1 million,

a decrease of 46%, due to the Reagan Administration's proposed consolidation of the Public Housing Operating Subsidy Program and the Public Housing Modernization Program. The impact of the consolidation of these programs on total units of housing available cannot yet be estimated.

Department of Interior: Projected FY 84 - \$0.00

Programs such as Urban Parks and Recreation Recovery, Land and Water Conservation Fund, and the Historical Preservation Fund have been supported by federal dollars. The FY 82 total of \$464,000 represents a 78% decline from FY 81. Boston is expected to receive no federal money from the Department of Interior in FY 84 because of the Administration's recommendation for termination of these programs.

Department of Labor: Projected FY 84 - \$8.1 million

The Commission on the Affairs of the Elderly receives funds under Title V to provide public service employment to elderly persons. Projected receipts in FY 84 are \$437,000, a 1.8% decrease from FY 83, but levels of service should remain the same.

Employment and Training--In the summer of 1982, the Job Training and Partnership Assistance Act (JTPA) was enacted to replace the Comprehensive Employment and Training Act (CETA), which expired in 1982. 1983 served as the transition year, and JTPA will officially replace CETA in 1984. The JTPA program is administered by NDEA.

In FY 82, Boston received \$12.1 million for employment and training, down 63% from FY 81. Receipts for FY 83

totalled \$10.2 million, a further decrease of 15%. NDEA reports that the FY 84 receipts will drop again by approximately 34%. The grant for FY 84 is as follows:

Employment and Training (JTPA)	Total: \$6,673,932
- Title IIA Entitlement	3,294,291
- Title IIA	301,241
- Title IIB, Summer Program	2,308,400
- Targeted Assistance - Refugees	720,000
- Title III, Dislocated Workers	50,000

NDEA and the Boston Private Industry Councils (PIC) will coordinate efforts to plan and implement programs for employment and training. Programs include employment to youths and assistance to dislocated workers, though the former will not provide any direct jobs. Together, the PIC and NDEA will work to develop a tie between JTPA and public institutions, utilize public school and community development, and develop private sector involvement in the employment and training programs. Such activities require resources, resources which have declined through the past three years.

In FY 82, when CETA was cut drastically, public service employment was eliminated, as was the YES program that provided employment incentives to youths to continue their education. Service levels were reduced to 5,880 job and training slots, a reduction of 56% causing termination of 7,350 people. In FY 83 an estimated 4,100 slots remained open. The FY 84 service levels are difficult to estimate because 1983 was the transition year from CETA to JTPA, and this was accompanied by several programmatic changes. Service levels are expected to continue to drop, however.

In its Job Training Plan for 1984 NDEA states that the resources provided by the JTPA program were inadequate

and forced Boston to narrow the range of service models available to clients and employers. Besides the reduction of funds from the federal government, the JTPA program was run on a 9-month fiscal year. Therefore, the \$6.5 million received is a 12-month allotment that must be prorated among FY 84 (9 months) and FY 85. This cuts down on the money available for 1984 through June 30, 1985.

Department of Transportation: Projected FY 84 -
\$1.9 million

The Massachusetts Bay Transportation Authority (MBTA) receives operating assistance funds from the Department of Transportation. In FY 84, the MBTA is expected to receive only \$1.9 million, a drastic cut of 68.6% from FY 83 and a decrease of 84% since FY 82. The MBTA may have to increase deficit assessments against member communities, cut services, or raise transit fares to compensate for the loss of money.

Department of the Treasury: Projected FY 84 -
\$18.6 million

Boston receives General Revenue Sharing funds that it uses for public safety, health, and elderly services. GRS funds are consolidated in the City's general operating budget, and the money can be used for capital expenditures. Boston received \$18.6 million in GRS funds in FY 82, a decrease of 14.8% from FY 81 due to population changes. Funding is expected to remain at the FY 83 level.

The Reagan Administration has proposed that in FY 84, communities be allowed to transfer up to 20% of Community Development Block Grant funds to the more flexible GRS funds. This would allow previously earmarked funds to be

used in the general operating budget, thus increasing Boston's flexibility. However, shifting of such funds would take money away from CDBG targets -- programs for low to moderate income people.

Environmental Protection Agency

The Boston Water and Sewer Commission receives Wastewater and Sewer Construction grants for construction of municipal sewage treatment works. Estimating receipts for fiscal years 1981, 1982 and 1983 is difficult because these funds are awarded on a cost-reimbursement plan, under which reimbursement occurs after the project is completed. Therefore, actual receipts in a given year do not reflect the actual expenditures for that year.

The federal government reimburses 75% of the costs and the state reimburses 15%. However, starting October 1, 1984, the federal government will only reimburse for 55% of the costs. The Boston Water and Sewer Commission believes that between the years 1981 and 1986 somewhere between \$60 and \$80 million has been or will be available from the Environmental Protection Agency. Therefore, it is imperative that the Commission get contracts out to bid and proposals in to EPA before a drop in reimbursements occurs.

CONCLUSION

Using the CDBG and JTPA programs as examples of the process of grant management and actual federal receipts over the past three years, a number of recommendations can be made. The subgranting of contracts should be monitored more

closely before questioned or disallowed costs arise. A contract review should be done to decide if some contracts can be closed out, thus freeing up money. Furthermore, CDBG spending for public services should be kept in check in the coming years. There have been cutbacks in federal aid for most programs and services in the City, especially for employment and training, education, and mass transit. Either services have to be cut or the City must make up these costs from the general operating budget.

No central office has complete data on incoming and outgoing federal funds. Further, actual figures from different reports do not match. The Office of Inter-governmental Relations compiles its report from budget surveys, yet discrepancies exist between the Office's figures and those provided by federal agencies, as well as among its own yearly reports. There are a number of problems in gathering information on federal funds at any given point. The advisability of tracking funds from the point the Mayor signs the proposal is offered as a solution. The Boston Municipal Research Bureau has recommended that the Mayor develop four primary budgets, one of which will be of all programs and services financed by external funds. This would provide a profile of the needs of each department versus its resources. Although federal aid (excluding GRS) is not consolidated into the general operating budget, these funds are available to City departments and agencies. Therefore, if the City is to review the needs of different departments and establish service priorities both within and among departments, the use of an accurate profile of federal funds is essential.

Assessing



INTRODUCTION

To comply with the mandates of the Sudbury case, Proposition 2-1/2, and the Classification Act, Boston was forced concurrently to revalue all its property and to reduce its overall property tax levy.

On the last day of FY 1983 (June 30, 1983), the City implemented the product of its three-plus-year revaluation effort by issuing tax bills based on full and fair, or 100%, assessed values. The subsequent issue of the FY 1984 tax bills in November, 1983 was the end point of mandated property tax cuts. FY 1984 represented the first time the City's overall property tax levy was 2-1/2% of the total value of all taxable property. The turmoil associated with levy cuts in FY 1983-84 has come to an end. The problems associated with levy growth are just beginning.

The maintenance of equity through revaluation and the establishment of a full value tax base for Proposition 2-1/2 are the responsibility of the Assessing Department. From the viewpoint of the chief executive, the demands are two-fold.

1. To comply with the state classification law and to maintain assessment equity, all cities and towns must revalue their property every three years. For Boston, revaluation is not behind us but ahead. The City must revalue all its property for FY 1986, commencing July 1, 1985, or less than 18 months from now.
2. To maintain its property tax revenue base for Proposition 2-1/2 purposes, the City must keep its assessed values abreast of full, or 100%, value. For FY 1985, assessed values must be factored up, and the value of all new taxable construction as of January 1 must be fully captured.

This analysis will focus on these two important concepts, in terms of where Boston's Assessing Department is today, and where it must go. The appendices following summarize key assessment statistics.

REVALUATION: EVERY THREE YEARS

Recent History

Massachusetts has a long history of inequitable and disproportionate assessing practices, exemplified by Boston, and caused in large part by infrequent community-wide reassessments or reappraisals. However, history has been radically altered. In 1974, the Supreme Judicial Court of Massachusetts mandated that all communities must assess their properties at full and fair, or 100%, cash value.

The 1979 Classification Act required that all property must be reassessed at least every three years. It also increased the enforcement powers of the Department of Revenue to ensure that all communities do, in fact, assess property at full and fair market value.

The Classification Act also allows, after revaluation is accomplished, for different rates of taxation by use -- residential, commercial, industrial, and personal. This effectively made legal what had been common practice in Massachusetts cities for decades. Before that, the practice was to overassess income-producing property compared to residential property. Now the law requires all property to be assessed equitably (at 100%) but allows it to be taxed at different rates by general use. The result is the same; businesses pay more proportionally than homeowners. (It was the illegal practice of disproportionate assessing before

the Classification Law took effect that caused the so-called "Tregor" liabilities, as discussed later in this chapter). However, to implement classification of property by use, Boston first had to re-value.

FY 1983 Revaluation

Revaluations in Massachusetts are under the general statutory authority of the State Department of Revenue and must meet the minimum standards as set forth in their guidelines. To comply with those guidelines and state law, the City in 1978 established the Office of Property Equalization (OPE). OPE undertook the first revaluation in Boston in several decades, utilizing a combination of in-house staff and technical consultants.

At the eleventh hour, the Department of Revenue certified the City's tax roll. The total taxable property valuation of the City was certified at \$12.2 billion as of January 1, 1982. However, property-tax-yielded revenues fell to \$374 million, because of Proposition 2-1/2 limits. In conjunction with the state certification, the City Council and the Mayor chose to implement the Classification Act, to the full benefit of residentially-classified property. Business property (the commercial, industrial and personal property classes) now shoulder approximately 70% of the total property tax burden while representing only 53% of the City's taxable valuation base. FY 1983 marked the first time in recent Boston history that the issue of disproportionate assessing practices was eliminated. The assessments of all property were now based on one standard for all properties -- 100%.

FY 1984

In June, 1983, Office of Property Evaluation was disbanded as a separate office and merged with the Assessing Department, the department charged with the administration of the property tax. The Assessing Department trended-up FY 1983 assessments and added the valuations of all new construction and parcels for the first time. (The trending process, an alternative to reappraisal, is a process by which prior revaluations are adjusted across the board to reflect a number of factors.) This produced a total taxable valuation of \$13.3 billion. The resulting levy of \$333 million represented an effective tax rate in compliance with the requirements of Proposition 2-1/2.

The Future: Revaluation Again

The Classification Act requires Boston to revalue all its property again in FY 1986. (In the interim fiscal year, 1985, the City plans again to trend-up the general property value base and to add all new construction.) The need for a complete revaluation for FY 1986 (less than 18 months away) will require the new Administration to address a number of issues, including the City's relation to the State Department of Revenue.

The State Commissioner of Revenue has broad powers of supervision in the area of local assessment administration. The Revenue Department's Local Service Division publishes guidelines, including statistical standards, with which all revaluation programs must comply in order to obtain approval. On May 31, 1983, shortly before the final certification of the City's tax rolls, the Commissioner and City executed a "Memorandum of Understanding". The

Memorandum states that the City's Computer-Assisted Mass Appraisal (CAMA) system has "to date been unable to generate values that meet the minimum standards, statistical and otherwise, set forth in the guidelines established by the Department of Revenue".

Two important provisions of the Memorandum are that the City have a fully operational CAMA system by June 30, 1984, and that the Department of Revenue retain a consultant over the next three years (paid for 50/50% by City and State, with City cost not to exceed \$25,000 per year) to monitor the City's progress to this end.

On December 13, 1983, the Department of Revenue released a request for proposals for A Review and Analysis of the City of Boston's Revaluation Program. The contract is to be executed by February 6, 1984, with work to begin shortly thereafter at the direction of the Department of Revenue. The proposal requires monitoring of the entire revaluation process including an initial review of CAMA development and analysis of the data base, taxpayer hearings, valuation, and field review procedures. Monthly written reports to the Department of Revenue are required and a final report must address new values and value update capabilities, providing supporting documentation.

The Department of Revenue appears to assume that the City will complete a new revaluation in time for the FY 1985 tax billing process. However, the City's present plans are to complete revaluation for FY 1986 in conjunction with the triennial requirement contained in the Classification Act. Assessing Department officials, as of this date, appear unaware of the Department's monitoring proposal. This issue requires immediate clarification. The Department of Revenue takes the position that the Memorandum is legally

enforceable. This proposal should be viewed as a strong measure by the Commissioner to enforce the Memorandum, as the state has never before hired an outside consultant to monitor a revaluation program.

Present City Efforts

The Assessing Department is presently undertaking some activities of major importance to the 1986 revaluation. Two are required by the Memorandum of Understanding: 1) CAMA system development, and 2) the re-collection or correction of property data. As to 1), through an initial review done by outside consultants, the City has determined that the present system is inadequate and that there are additional software and hardware needs. (See the MIS chapter of this report.) With respect to 2), on December 1, the Assessing Department released an RFP for the total re-collection of physical property characteristics for residential properties (one-, two and three-family homes, condominiums, and residential land). The Assessing department is of the opinion that the current base file of the physical characteristics of each residential property is wholly inaccurate and must be totally re-collected. Ten proposals were sent out and three bids were received. To re-collect 73,000 residential parcels, the total bids were for \$919,000, \$1,292,000, and \$1,713,000, or a per-parcel cost of \$12.59, \$17.70, and \$23.47, respectively. Additional information has been requested from the bidders, and no contract has yet been signed. The City has been directed to submit the re-collection contract to the Department of Revenue for review before final execution.

The Assessing Department is currently undergoing a major reorganization. The reorganization attempts to address a number of factors including the merger with the Office of Property Evaluation, deficiencies resulting from the loss of the technical managers of the FY 1983 revaluation, and new revaluation responsibilities. The key technical positions in the proposed new structure remain to be filled.

Issues Which Remain to be Addressed

A new revaluation is imminent for FY 1986 -- less than 18 months away. The tasks involved in a revaluation are complex, technical and potentially very costly. The City's base tools for the FY 1986 revaluation are from the FY 1983 revaluation.

Yet, as noted, the Assessing Department felt strongly enough about the insufficiency of its present residential property inventory base to request bids for the recollection of all residential property data (both interior and exterior). And the Department of Revenue has directed a verification of the accuracy of the total data base for all properties.

The Memorandum of May, 1983 directed the City to fully implement a CAMA system. City officials have currently estimated the potential cost of software alone to be \$100,000. The Department of Revenue's directives and the actions of the Assessing Department demonstrate that the FY 1983 tools are, at best, flawed.

Cost--To date, the complete cost and an analysis of all necessary resources have not yet been determined.

The full cost of a 1986 revaluation must be quickly ascertained. Other questions must be answered as well. Should the program be completely contracted out, done in-house, or by a combination of both? Are present budgetary levels adequate with a reallocation of resources or are new appropriations needed? Should the costs of the revaluation program be financed by bonding?

Personnel--Personnel decisions will be based in part upon how much of the revaluation work is contracted out and how much is done in-house. The present staff of the Assessing Department is wholly lacking in mass-appraisal (revaluation) expertise. The "civil service" Assessing Department was generally excluded from the last revaluation, as it was administered solely by the Office of Property Evaluation. As a result, its staff acquired little mass-appraisal experience.

Many questions remain to be addressed. If it is done in-house, how will the present civil servants be retrained to carry out the revaluation? Should the staff be reallocated or cut and experienced personnel be hired?

City-Wide Impact--Revaluation will affect Boston taxpayers directly in at least two ways. First, every property in Boston will be visited by an employee or representative of the City, at least once and possibly more during the next 18 months. Second, toward the end of the program, every taxpayer in Boston will receive a new (as of January 1, 1985) 100% assessment of their property upon which FY 1986 bills will be calculated.

The public perception of the FY 1983 revaluation was generally favorable, although over 7,000 complaints (abatement requests) remain to be resolved. Because the

increased assessments were coupled with three years of mandated Proposition 2-1/2 cuts, the impact was largely hidden. After decades of property tax increases, taxpayers were relieved that their total tax bills were less. However, in FY 1986, the City will not have the advantage of the levy cut to soften the impact of new full value assessments.

Other Considerations--A successful revaluation can produce benefits beyond equitable assessments to the overall administration of the City. A major component of the revaluation program will be a total inventory of all properties of the City. This inventory, properly constructed, can be of immeasurable benefit to other City agencies in their efforts in the areas of housing, public safety, linkage and planning.

THE PROPERTY TAX BASE

The Proposition 2-1/2 Equation

Historically, the largest single source of City revenues has been the property tax. In 1980, Massachusetts voters overwhelmingly approved a statewide property tax limitation initiative, commonly known as Proposition 2-1/2. Under Proposition 2-1/2, the level of property taxation in a community cannot be more than 2-1/2% of the total taxable fair cash value of all property in that community. This can be expressed by the equation:

$$\frac{\text{Total Property Taxes (Property Tax Levy)}}{\text{Total Fair Cash Values (Assessed Values)}} = 2-1/2\% \text{ The Effective Level of Property Taxation}$$

It is a function of the Assessing Department to maintain the fair cash value portion (the denominator) of the equation.

In FY 1984, Boston's level of property taxation was effectively at 5.18%, more than double the allowable 2-1/2% level. By law, the City had to reduce its property tax levy at least 15% per year until the 2-1/2 level was reached. In FY 1984, it reached that level by balancing the equation with a decrease in the tax levy and an increase in fair cash values.

The property tax levy (revenues) fell to \$333.3 million, while its total fair cash value rose to \$13.3 billion:

$$\frac{\$333.3 \text{ million}}{\$13.13 \text{ billion}} = 2-1/2\%$$

Now, under the further provisions of Proposition 2-1/2, the numerator (\$333.3 million), represents Boston's tax levy cap base for future fiscal years.

Growth of the Tax Base

In FY 1985 and future years, the City will be subject to the 2-1/2% levy cap provisions of Proposition 2-1/2. The property tax levy base (\$333.3 million) can only rise by 2-1/2% per year with the exception of the tax dollar value of new construction growth.

New construction growth includes property which has increased in assessed value by at least 50% in the last year and property that is newly assessed to the tax roles. The dollar amount of the construction growth that can be added to the levy base is calculated by multiplying the increased

assessed values times the previous fiscal year's classified tax rate (i.e., if a residential property, multiply by the previous year's residential tax rate; if commercial, by the commercial tax rate).

To maximize property tax revenues while the tax levy can rise only 2-1/2% per year, the Assessing Department must at least ensure that fair cash values also increase (appreciate) at least 2-1/2% per year.

To increase revenues above the 2-1/2% general increase, all new construction growth as of January 1 must be accurately and fully assessed. The City's current building boom provides the substance for this additional tax growth. However, the importance and difficulties of accurately assessing new construction as of January 1 every year cannot be overemphasized.

At present, there is very limited coordination among City agencies -- Assessing Department, BRA, Inspectional Services, and others -- who are involved in planning, inspecting, or valuating new construction. With today's fiscal constraints, it is very important for financial planning purposes to have estimates of new tax growth early in the budgetary cycle. Traditionally, the value of new construction growth has not been accurately known until well after the City's budgetary planning cycle -- anywhere from July to October. In the future, it should be determined annually by March or April to incorporate actual property tax revenue projections into the fiscal planning process.

However, for property under construction, the application of "fair market value" as of January 1 is dif-

ficult to determine in a legal context. There are three appraisal approaches to determining fair cash value -- market, cost and income.

The market approach to valuation is comparing unsold property with property that has recently been sold. Typically, new buildings under construction or just completed are not sold -- hence the lack of a market approach.

The cost approach, as the name indicates, is based on the construction or reproduction cost of a building plus the value of the land, while the income approach is generally based on the income potential of a property. In present appraisal/assessment practice, the cost approach generally yields a higher value than the income approach. However, the majority of legal and state Appellate Tax Board decisions generally favor the income approach to value for income-producing properties unless they are of a distinct special purpose nature. This is true even for property under construction or just completed, which has little or no present income stream. The process is to estimate its income value as if fully completed and occupied, and then to apply a factor based upon the percentage of completion.

In sum, the legal prescription for the determination of fair cash value for property newly completed or under construction is unclear, and oftentimes must be litigated. (For a review of potential property tax revenues in future years, refer to the Revenues chapter of this report.)

Abatement Liability -- Continued Concern

Applications for abatement must be filed within 30 days of the mailing or the tax bill with the Assessing Department by taxpayers who believe that their assessed values

are not equal to the fair market value of their property. Applications for abatement are generally filed for reason of overvaluation, improper classification, disproportionate assessment, or exemption. Abatement applications which have not been acted upon within three months may be appealed to the state Appellate Tax Board. The Assessing Department is authorized to settle appeals which have been properly filed with the Appellate Tax Board prior to the Board's determination. Outstanding abatements and appeals represent potential liabilities against the City's general funds.

Through the 1970's and early 1980's, the abatement liability of the City grew as a result of the disproportionate assessing practices of the City. Over the past five years, abatements worth approximately \$100 million have been remitted to taxpayers. By state law, the monies needed to fund abatement payments come from the overlay account raised in the relevant tax year. When this account is deleted, the overlay deficit must be raised in following tax years.

Before and After Revaluation

The City's abatement liability can be broken down into two general categories: outstanding cases before the Appellate Tax Board for tax years prior to and including fiscal 1982, and abatement applications filed after the implementation of revaluation for FY 1983 and FY 1984.

The certification of the City's revaluation program by the Department of Revenue in FY 1983 put a cap on disproportionate assessing claims against the City. Prior to FY 1983 and compliance with the Classification Act, the City was illegally assessing income-producing property at a higher proportionate rate than residential property. This

illegal practice was successfully challenged in the courts, creating a huge abatement liability. At one juncture, the liability was estimated to be in excess of \$140 million, a fiscal crisis only mitigated by the "Tregor Bill" passed in June, 1982.

However, as of June 30, 1983, the liability for FY 1982 and all years prior was calculated to still be approximately \$50 million. Though the liability is dropping, a substantial portion remains. Over 7,000 abatement applications were filed for FY 1983, and approximately 5,500 were filed for FY 1984. It is beholden upon the Assessing Department to relieve any liability by properly, fairly and expediently administering the adjudication of these abatement appeals, with the goal of avoiding future overlay reserve appropriations.

However, FY 1983 and FY 1984 abatements have even further significance for the City's financial position. Proposition 2-1/2's equation demonstrated that proper maintenance of the City's fair cash value base is necessary to realize property tax revenue growth. If significant abatements are granted against the FY 1983-84 general value base, it will necessitate further factoring of assessments beyond Proposition 2-1/2's overall average.

At present, there are no complete estimates of the actual liability involved for FY 1983 and FY 1984, but the abatement applications filed for FY 1983 (an accounting of FY 1984 was not made available in time for this report) represented some of the largest taxpayers in the City. Personal property abatement applications were filed by Boston Edison Company, Boston Gas Company, Eastern Airlines, and others. Abatements on real estate were filed for properties totaling over \$3.5 billion in assessed valuation.

Table 1 is a list of the largest real estate properties for which abatement applications were filed in FY 1983. Included are only the main parcels and reflect total assessments as of January 1, 1982.

TABLE 1

LARGEST FY 1983 REAL ESTATE ABATEMENT APPLICATIONS

<u>Name</u>	<u>Location</u>	<u>Total Assessed Value</u>
President & Fellows of Harvard College	474 Brookline Avenue	\$200,000,000
John Hancock Mutual Life Insurance Co.	200 Clarendon Street	198,374,504
Bank of Boston	100 Federal Street	128,374,504
New England Telephone & Telegraph	185 Franklin Street	89,045,000
Bertram A. Druker Trust	60 State Street	83,824,508
John Hancock Mutual Life Insurance Co.	197 Clarendon Street	82,441,004
Boston Edison Company	658 Summer Street	71,700,000
Hexalon Real Estate, Inc.	80 Pearl Street	70,625,000
Faneuil Hall Market, Lessee	Clinton Street	55,080,000
Robert J. Perriello Trust	22 Pearl Street	52,467,000
Marriott Urban, Lessee	100 Huntington Avenue	31,333,500
Teachers Realty Corporation	50 Milk Street	26,165,000
Roger A. Saunders Trust	54 Providence Street	25,607,000

The above 13 properties alone represent \$1,115,662,020 in assessed value. In addition, Harvard College is presently negotiating a Chapter 121A in-lieu-of tax

agreement for its property, the MATEP Plant, which would remove \$200 million from the general value base. The amount of total tax liability involved cannot at present be ascertained. However, it is clear that concerns about the FY 1983-84 overlay accounts and the future fair cash value base of the City must be fully addressed.

FY 1983 Residential Abatements

A growing concern surrounding the FY 1983 abatement applications is the issue of inaction, particularly on residential applications. From the date an abatement application is filed, by state law the Assessing Department has three months in which to act (in FY 1983, by October 1-30, 1983). The demands of the then-pending FY 1984 tax billing process forced the City to successfully file home-rule legislation which allowed the Assessing Department an additional three months to act on FY 1983 abatement applications (by January 1-30, 1984). Within ten days after the period for action has expired, the Assessing Department must notify taxpayers if no action has been taken and that they may appeal their application to the state Appellate Tax Board -- a quasi-judicial proceeding where filing fees are required. To date, only an approximate 150 or 2% of all applications filed for FY 1983 have been acted upon (and none for FY 1984) and inaction notices are now being mailed out.

Residential (excluding apartments) abatement applications filed in FY 1983 (there were 2,783) represented 39.4% of the total of all applications filed on real estate. Yet, the 2,783 applications represent only 6.7% of the total assessed value for all real estate filings. There was and is sound financial reason to take, and certainly no

social reason not to take, action on the residential abatement applications. Action from this point forward will be more costly and complicated for both the City and the taxpayer.

In conclusion, abatement liabilities, even in the wake of revaluation, continue to be a major financial and social problem facing the City today.

APPENDICES

Title

- A. FY 1984 Tax Rate Computation
- B. Valuation of Real Estate by Ward in FY 1984
- C. Valuation of Real Estate by Use in FY 1984
- D. Number of Real Estate Parcels Assessed by Use in FY 1984
- E. Motor Vehicle Excise Tax, 1958-1983
- F. Valuation of Real Estate, Personal Property, and Total City Valuation, FY 1963-1984
- G. Value of Exempt Property, FY 1960-1984
- H. Personal Exemptions in FY 1983

APPENDIX A

FY 1984 TAX RATE COMPUTATION

Total Appropriations and Expenditures	\$948,056,392
Less Total Non-Property Tax Revenues	<u>614,788,273</u>
Net Amount to be Raised by Taxation	<u><u>\$333,268,119</u></u>

<u>State Class</u>	<u>Class-ified % Share of Levy</u>	<u>Total Tax Levy by Class</u>	<u>Total Valuation by Class</u>	<u>Tax Rate= Levy Class x 1000</u>
I Residential	30.0805	\$100,248,717	\$ 5,862,458,925*	17.10
II Open Space	-0-	-0-	-0-	-0-
III Commercial	44.5534	148,482,278	4,563,421,608	32.54
IV Industrial	7.5791	25,258,724	776,300,474	32.54
V Pers. Prop.	17.7870	59,278,400	1,821,847,318	32.54
TOTAL	100%	\$333,268,119	\$13,024,028,325	

* Total residential valuation for tax rate purposes is less the value of the residential exemption (\$306,696,440)

APPENDIX B

VALUATION OF REAL ESTATE BY WARD IN FY 1984

<u>WARD</u>	<u>PARCELS</u>	<u>TOTAL VALUE</u>
1	6,343	\$ 371,006,688
2	2,714	281,248,471
3	5,308	2,934,725,608
4	2,505	1,165,210,992
5	8,048	1,727,966,063
6	4,424	458,066,342
7	3,724	199,178,718
8	1,894	137,161,824
9	1,220	77,716,187
10	2,003	90,804,644
11	3,092	137,953,182
12	2,242	102,731,870
13	2,904	160,806,044
14	4,529	141,630,140
15	3,040	104,523,912
16	5,335	315,408,656
17	4,856	208,481,141
18	13,414	679,169,416
19	5,242	330,760,834
20	12,683	28,522,172
21	4,574	567,194,360
22	<u>6,145</u>	<u>551,610,183</u>
 TOTALS	 105,394	 \$11,508,877,447

APPENDIX C

VALUATION OF REAL ESTATE BY USE IN FY 1984
(in millions of dollars)

<u>Use</u>	<u>Total Land Value</u>	<u>Total Build- ing Value</u>	<u>Total</u>
R1 (single family)	\$ 363.5	\$1,319.5	\$ 1,683.0
R2 (two family)	215.0	857.5	1,072.5
R3 (three family)	146.1	633.5	779.5
R4 (4-6 units)	73.1	306.2	379.3
RL (residential land)	57.9	--	58.1
A (apartments)	133.6	753.9	887.6
CD (condominiums)	--	952.4	952.4
CP (condo parking)	.8	3.3	4.1
RC (residential/ comercial)	104.6	399.6	504.1
C (commercial)	760.0	3,311.4	4,071.3
CC (commercial condo)	--	127.0	127.0
AH (agricultural/ horticultural)	--	--	--
<u>I (industrial)</u>	<u>87.4</u>	<u>688.8</u>	<u>776.3</u>
 TOTAL	 <u>\$2,155.5</u>	 <u>\$9,353.4</u>	 <u>\$11,508.9</u>

APPENDIX D

NUMBER OF REAL ESTATE PARCELS
ASSESSED BY USE IN FY 1984

<u>USE</u>	<u>NUMBER OF PARCELS</u>
R1 (single family)	29,231
R2 (two family)	18,806
R3 (three family)	15,739
R4 (4-6 family)	3,527
RL (residential land)	10,309
A (apartments)	2,548
CD (condominiums)	12,366
CP (consominiums parking)	441
RC (residential/commercial use)	2,582
C (commercial)	4,872
CL (commercial land)	3,426
CC (commercial condos)	667
AH (agricultural horticultural)	3
<u>I (industrial)</u>	<u>877</u>
 Total Items	 105,394

APPENDIX E

MOTOR VEHICLE EXCISE TAX
1958-1983

<u>Year</u> <u>Assessed</u>	<u>Number of</u> <u>Motor Vehicles</u> <u>Assessed</u>	<u>Amount of Tax</u>	<u>Tax Rate</u>
1958	187,020	\$ 5,679,550.60	60.25
1959	188,393	6,223,247.18	64.13
1960	198,357	7,156,025.76	66.96
1961	202,515	7,553,739.78	66.00
1962	205,963	8,104,557.39	66.00
1963	207,627	8,642,967.32	66.00
1964	207,462	8,865,440.05	66.00
1965	207,804	9,453,132.26	66.00
1966	207,392	10,169,753.97	66.00
1967	204,984	10,290,983.95	66.00
1968	209,938	11,066,712.87	66.00
1970	221,776	12,391,716.31	66.00
1971	252,775	13,400,723.73	66.00
1972	241,080	13,704,685.41	66.00
1973	272,554	15,359,734.21	66.00
1974	260,391	15,731,766.80	66.00
1975	261,865	15,817,076.56	66.00
1976	255,610	15,662,247.26	66.00
1977	252,512	15,389,454.57	66.00
1978	243,997	15,521,778.12	66.00
1979	252,888	18,132,986.35	66.00
1980	241,565	20,012,882.82	66.00
1981	261,340	18,836,856.94	25.00
*1982	278,375	10,477,265.76	25.00
1983	272,577	10,950,680.59	25.00

* In 1981 Proposition 2 1/2 reduces the MVE tax rate to \$25.

APPENDIX F

VALUATION OF REAL ESTATE, PERSONAL ESTATE, AND TOTAL CITY VALUATION FY 1963-1984

<u>Year</u>	<u>Real Estate</u>	<u>Personal Estate</u>	<u>Total Valuation</u>
1963	\$1,309,853,500	\$135,146,500	\$1,445,000,000
1964	1,324,321,400	135,678,600	1,460,000,000
1965	1,352,183,900	137,816,100	1,490,000,000
1966	1,368,025,100	139,470,400	1,506,495,500
1967	1,288,042,700	142,668,000	1,530,710,700
1968	1,424,259,300	148,048,700	1,572,308,000
1969	1,446,731,800	152,268,200	1,599,000,000
1970	1,459,918,600	157,081,400	1,617,000,000
1971	1,502,310,000	179,190,000	1,681,000,000
1972	1,531,861,800	183,838,200	1,715,700,000
1973	1,534,706,700	207,493,300	1,742,200,000
1974			
(1st 6 mos.)	1,556,891,700	227,308,300	1,784,200,000
FY 1975*	1,556,891,700	227,308,300	1,784,200,000
FY 1976	1,549,461,400	244,011,600	1,793,473,000
FY 1977	1,518,212,000	246,788,000	1,765,000,000
FY 1978	1,498,038,800	246,961,200	1,745,000,000
FY 1979	1,481,346,400	243,653,600	1,725,000,000
FY 1980	1,494,316,500	243,6832,500	1,738,000,000
FY 1981	1,636,587,000	265,413,000	1,902,000,000
<u>FY 1982</u>	<u>1,635,769,200</u>	<u>272,932,300</u>	<u>1,908,701,500</u>
*FY 1983	10,481,679,435	1,695,417,271	12,177,086,706
*FY 1984	11,508,877,447	1,821,847,318	13,330,724,765

* In fiscal 1983, the City revalued and began assessing property at 100% of value.

APPENDIX G

VALUE OF EXEMPT PROPERTY
FY 1960-1984

<u>Year</u>	<u>Total Value Exempt</u>
FY 1984	12,130,673,300
FY 1983	10,959,024,590
FY 1982	2,690,883,300
FY 1981	2,658,130,000
FY 1980	2,622,206,700
FY 1979	2,613,036,100
FY 1978	1,209,932,742
FY 1977	2,476,099,000
FY 1976	2,373,294,500
FY 1975	2,272,135,700
1974	2,272,135,700
1973	2,165,178,200
1972	1,934,462,000
1971	1,836,728,000
1970	1,724,695,200
1969	1,561,877,000
1968	1,267,527,300
1967	1,198,430,300
1966	1,117,719,200
1965	1,054,195,000
1964	989,719,500
1963	966,890,000
1962	917,016,000
1961	889,940,600
1960	876,462,800

* FY 1983 the City began assessing property at 100% of value.

APPENDIX H

PERSONAL EXEMPTIONS IN FY 1983
G.L. c. 59, s. 5
FY 1983

Clause and Description	Tax Abated	Items
Clause 17C		
Surviving spouse and child	\$ 573,832.49	2,527
Clause 22		
Veteran	\$1,065,085.37	4,377
Clause 37A		
Blind	\$ 189,283.87	293
Clause 41B		
Elderly	\$2,897,129.15	4,766
Clause 42 and 43		
Surviving spouse/child police and fire	\$ 21,025.69	23
<hr/> Totals	<hr/> \$4,746,356.57	<hr/> 11,986

Debt Management

ISSUE

In the opinion of Bond Counsel under existing law, the Bonds will be exempt from federal income taxes and from Massachusetts personal income tax and the interest thereon may be included in the measure of Massachusetts estate and inheritance tax and corporate excise and franchise taxes.

\$30,000,000

City of Boston, Massachusetts General Obligation Bonds

Dated September 1, 1983

Due: August 1, as shown below

The Bonds will be issued only as fully registered bonds in the denomination of \$5,000 or multiples thereof. Interest on the Bonds will be payable on February 1, 1984 and semiannually on each August 1 and February 1 thereafter until maturity or redemption prior to maturity. The principal or redemption price, if any, of the Bonds and the final installment of interest thereon will be payable at the principal office of State Street Bank and Trust Company, Boston, Massachusetts, as Fiscal Agent, or at the office of any successor Fiscal Agent. Interest on the Bonds, other than the final installment thereon, will be payable by check or draft mailed to the registered owners of the Bonds at the addresses appearing on the registration books of the City maintained by the Fiscal Agent as of the close of business on the 15th day of the calendar month immediately preceding each interest payment date. The Bonds will be subject to redemption prior to maturity as more fully described herein.

The Bonds will be issued for various municipal purposes more fully described herein under "Authorization and Purpose." The Bonds will be general obligations of the City for the payment of the principal or redemption price of and interest on which all taxable property in the City is subject to the levy of *ad valorem* taxes without limit except as provided in Section 21C of Chapter 59 of the General Laws of Massachusetts as more fully described herein under "Payment of and Security for the Bonds."

Maturity	Principal Amount	Interest Rate	Price or Yield	Maturity	Principal Amount	Interest Rate	Price
1984	\$2,065,000	10 $\frac{1}{2}$ %	6.75%	1994	\$955,000	10.2%	100%
1985	2,065,000	10 $\frac{1}{2}$	7.25	1995	955,000	10.3	100
1986	2,055,000	10 $\frac{1}{2}$	7.75	1996	950,000	10.4	100
1987	2,050,000	10 $\frac{1}{2}$	8.25	1997	950,000	10 $\frac{1}{2}$	100
1988	2,045,000	10 $\frac{1}{2}$	8.75	1998	950,000	10.6	100
1989	2,045,000	10 $\frac{1}{2}$	9.25	1999	950,000	10.7	100
1990	2,045,000	9 $\frac{1}{4}$	100	2000	950,000	10 $\frac{3}{4}$	100
1991	2,045,000	9 $\frac{1}{2}$	100	2001	950,000	10 $\frac{3}{4}$	100
1992	2,040,000	9 $\frac{3}{4}$	100	2002	950,000	10 $\frac{3}{4}$	100
1993	2,040,000	10	100	2003	945,000	10 $\frac{3}{4}$	100

(Accrued interest to be added)

The Bonds will be offered subject to prior sale, when as and if issued by the City and accepted by the Underwriters, subject to the final approving opinion of Palmer & Dodge, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described herein. Certain legal matters will be passed upon for the Underwriters by Mintz, Levin, Cohn, Ferris, Glovsky and Popen, P.C., Boston, Massachusetts. It is expected that the Bonds will be available for delivery in New York, New York, on or about September 5, 1983.

INTRODUCTION

The power to borrow is one of the most important assets of government. Like all government powers, however, the capacity to borrow must be used with critical regard for its justifiable purpose and with a clear understanding of its safe and reasonable limits. A sound borrowing policy is one that seeks to conserve rather than exhaust credit. The ability to borrow when necessary on the most favorable terms afforded by the market is an objective that applies to government just as it does in the private sector.

A government's credit standing, servicing expenses, the cost of new borrowing, and its very ability to borrow to meet anticipated costs or emergency needs all depend in large part upon how well it handles its outstanding debts. The consequences of governmental debt management, however, go far beyond costs of borrowing. Government debt management affects the community's economic system, its prosperity, and the relative welfare of its citizens.

BORROWING PROCESS

Ideally, the procedures for authorizing loans dictate a borrowing pattern reflecting the capital needs and financial resources of the city. Proper controls need to be balanced against flexibility and effectiveness. Debt management, as such, was virtually non-existent in Boston prior to 1976. While the process from start to finish of establishing a capital need, selling bonds and spending funds is not routine, certain generalizations can be made that highlight the key control and decision points. The scenario that follows pertains to direct debt or general obligations incurred by the City to fund a capital project.

Needs Assessment

The first step in the capital borrowing process is the determination of need. This should be established systematically and politically through the capital budgeting process as described in that chapter of this report. The Treasurer-Collector should reconcile the capital needs with the borrowing goal for the fiscal year. The borrowing goal is an administrative judgment based upon a variety of criteria including: the debt limit, the volume raisable in the market, the ability of the budget to support the debt service, and the impact of the borrowing on the City's future financial position.

Sizing

The debt limit is presently not a constricting factor in determining the borrowing goal. The normal debt limit which pertains to direct general obligation debt of the City is 2-1/2% of the valuation of taxable property in the City as last equalized by the State Department of Revenue. This amount can be doubled with the approval of the State Emergency Finance Board. In addition, there are many categories of general obligation debt exempt from these limits and subject to special limits ranging from 1/2 of 1% to 10% of equalized valuation depending upon the category or purpose. Within the general category, as of August 1983, the City could authorize an additional \$276.2 million in debt, substantially all of which would be subject to state approval.

The ability of the budget and the tax levy to support the debt service associated with a borrowing is an obvious limitation upon the borrowing goal for each respective

fiscal year. In fiscal 1983 the debt service obligation totaled 74.2 million representing 8.9% of the 835.3M Statutory Budget. The four previous years were within 1% of that figure.

The volume raisable in the capital market has been a major concern in the determination of bond size and timing of offerings since the national urban credit crises of 1975-1976. Although demand for the bonds will influence the size and price of the offering, when investors are concerned about the safety of the credit, at a certain point there may be virtually no price at which they can be sold.

The size of an offering is taken by investors as well as other parties as a statement indicating the degree of fiscal conservatism and responsibility in the management of the City. If too many bonds are offered in the market, it may call into question the administration's prudence. If too few bonds are offered, the City may be underfinancing its capital needs and not doing all it can to maintain its capital plant.

Submission

Loan orders are authorizations for borrowings that lead to appropriations for expenditures with regard to specific projects. While loan orders can originate by departments, they generally are originated by the Treasurer-Collector after review by the Law Department. An administrative directive is controlling the process by indicating that no business be submitted to the Council in the name of the administration without clearing the Treasurer-Collector.

Ideally, after the administrative judgment as to the borrowing goal is determined, and fit into an overall financial plan, submissions for loan orders are developed. The orders are authorizations, not borrowings, and the sizing of the order and the determination of which projects to request orders for is not directly correlated with the intended borrowing amounts for the fiscal year.

Approval

The Council refers the submissions to the Committee on Ways and Means. The Committee may hold public hearings. If the loans are reported favorably, the City Council then votes twice, at least two weeks apart. Each vote requires a 2/3 majority for approval. If the Council fails to act within 60 days the order is also approved.

After the Council has approved the order, it is sent to the Mayor. By law, a 21 day waiting period must elapse after the Mayor's approval before the loan order is effective. The waiting period is intended to allow citizens to petition for a referendum on the loan order. This has not happened in recent memory. If the loans have been authorized under Chapter 44 of the General Laws as amended, the planning and budgeting unit must get State Emergency Finance Board approval (with what has usually been a pro forma vote.)

Spending and Borrowing

After the 21-day waiting period, a loan order becomes effective. The Treasurer-Collector can send a letter of intent to sell bonds to the City Auditor, and the planning and budgeting unit in consultation with the Auditor can

establish an appropriation in the accounting system. At this time, department heads are free to award contracts without approval. Department heads may, therefore, commit the City to contracts without any planning as to how and when bonds will be sold. This practice was a cause of the City's financial crisis in 1976.

In order to insure that all capital projects can be properly funded by the City's long-range capital program, the Mayor must require that capital budget proposals are published in the City Register after approval by the Treasurer-Collector. Someone in authority must have the opportunity to stop expenditures or the issuance of bonds after the approval has been obtained.

There was, as of December 1983, \$166,014,600 in loan orders authorized but unissued; \$71 million of this was authorized in November 1983. After the authorization process, the sizing considerations described earlier are re-examined and preparations for borrowing are made. A timetable must be established that weights the need for funds against the demands of the marketplace. Timing may depend upon technical factors in the market or it may depend upon other political priorities. Extensive financial information must be gathered for a preliminary official statement, and a strategy for presenting material to the rating agencies and major investors must be developed. When this is completed the bonds can be sold.

Variations

The preceding has described the general obligation borrowing process for a capital project. Examples of other kinds of borrowings requiring other procedures include other

forms of general obligation borrowing, revenue bond borrowing, and revenue anticipation borrowing. An example of the first is the financing of certain school facilities which requires approval of the State Board of Education. The approval enables the City to obtain a reimbursement from the Commonwealth for a percentage of the principal and interest owed on the financing of the project.

Revenue bonds such as those issued by the Boston Water and Sewer Commission do not require authorization on the part of the Council as the Commission has its own authorization to issue bonds because the City is not obligated to pay debt service.

Revenue anticipation borrowings require a loan order not for capital projects but for paying current operating expenses to the City in anticipation of tax revenue which does not flow into the City coffers in an even monthly pattern.

HISTORY

The following discussion of the history of Boston's debt management practices assumes an important distinction between the financing of capital projects and the financing of operating expenses. The distinction is not only of interest because of the different purposes to which the proceeds of financings are put to use but because the markets for the different kinds of financing are decidedly different and the management issues are clearly distinguishable. Capital projects involve financing over the useful life of the project and entail the marketing of serial maturities and term bonds and planning for the retirement of debt obligations over many years. The exception to this, Bond Antici-

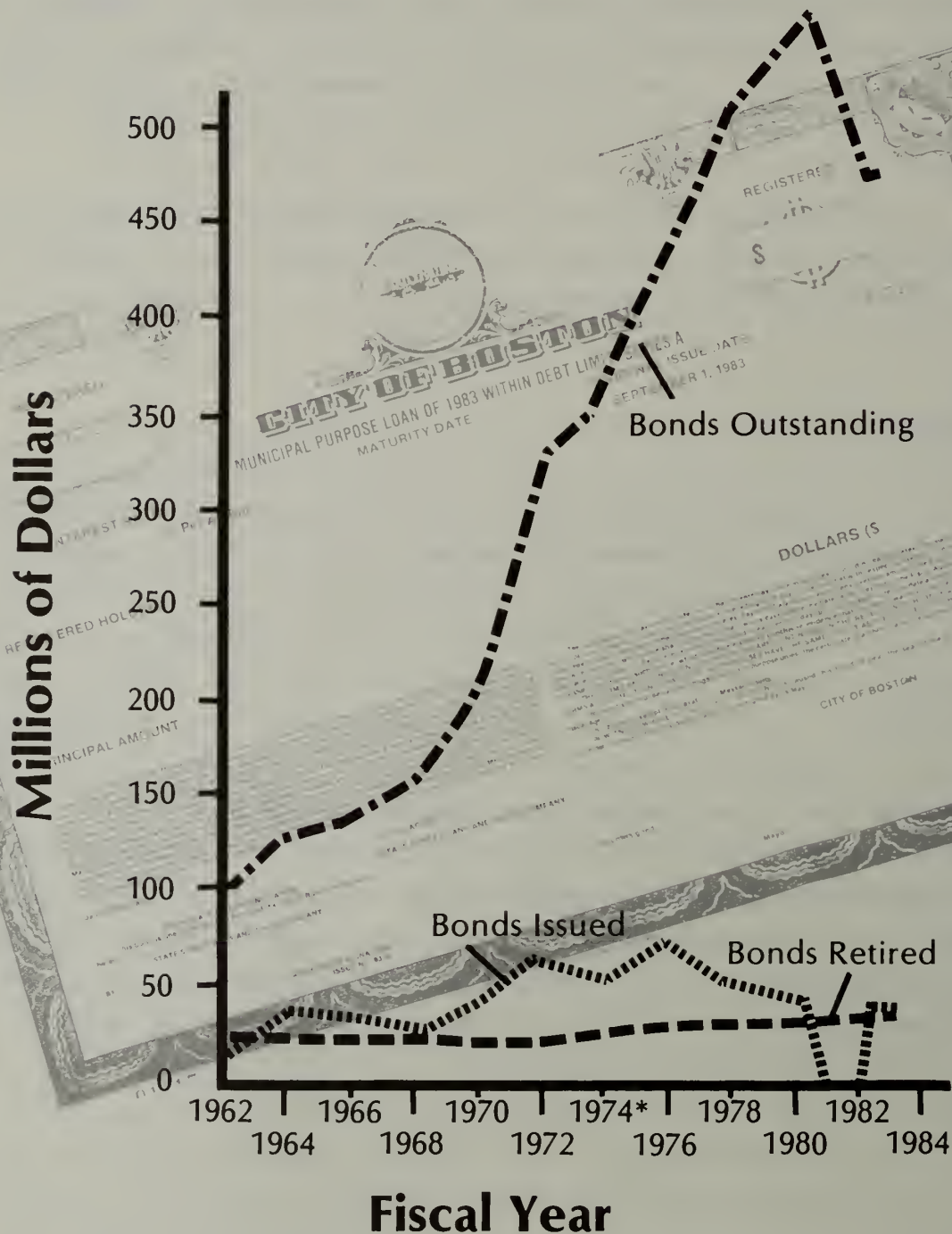
pation Notes, are notes that will be paid with the proceeds of bonds. The financing of operating expenses in anticipation of revenues entails the marketing of short term securities, most often notes that are in anticipation of property tax revenues. Long term financing is needed for the provision of essential services and an adequate infrastructure; short term financing is essential for the provision of adequate cash flow to meet daily obligations.

The first section below will discuss financing with regard to capital projects and the second with regard to cash flow operational concerns.

1962-1975

Since 1962, the City developed an aggressive capital expenditure program for school construction, urban renewal, mass transportation, construction of public buildings and port development. This led to an expansion of the amount of direct debt issued by the City for capital construction. As recently as the mid 50's, the total outstanding amount of general obligation bonds was less than \$60 million. The amount is presently \$469 million. The large increase in the City's financing of infrastructure projects was necessary because of the poor physical condition of significant parts of the City's older capital plant. During the period from 1962-1975 capital expenditures closely paralleled the capital borrowing amounts.

Bonds Retired, Issued, and Outstanding 1962-1983



Fiscal year changed in 1973 from calendar year to a July 1 through June 30 fiscal year. Accordingly, 1974 figures cover the period of January 1, 1973 through June 30, 1974.

1975-1981

In 1975 and 1976 capital expenditures greatly exceeded capital borrowing. Expenditures had been rising since 1970 and peaked in 1976. While the expenditures were escalating, the markets were closing down credit to Boston and other snow belt cities. New York City's fiscal problems combined with the pressure of rising oil prices on interest rates and the economic problems of the urban snowbelt to make the municipal market a difficult place for Boston to borrow in 1975 and 1976. In addition, Boston was one of a number of large northeastern cities downgraded in 1976, reducing potential buyers for its securities. Boston was not able to slow expenditures nor borrow enough to cover them in 1975 and 1976. The resulting \$56 million differential was met by using \$33 million in cash reserves from the capital improvements fund, \$14 million in warrants payable (a paper loan from the general fund), and \$8 million from the sale of City property. By 1977 expenditures were cut and the general revenue fund was reimbursed from the capital improvements fund. The annual issuance of long term debt was reduced from a high of \$85 million in 1976 to \$55 million in both 1979 and 1980.

TABLE 1

CITY OF BOSTON CAPITAL FUND EXPENDITURES
AND BOND ISSUES 1965 TO 1983
(dollars in millions)

<u>Fiscal Year</u>	<u>Bonds Issued^a</u>	<u>Capital Expenditures^b</u>
1965	\$12.4	\$14.1
1966	16.5	19.8
1967	32.2	24.6
1968	24.9	31.6
1969	39.0	31.5
1970	53.8	56.8
1971	77.2	76.7
1972	84.0	72.2
1974 ^c	70.1	70.5
1975	60.0	92.1
1976	85.0	109.0
1977	75.0	59.5
1978	65.0	51.2
1979	55.0	45.9
1980	55.0	61.4
1981	--	24.7
1982	--	7.6
1983	45.0	est. 9.0

SOURCE: Years 1965-79: The Future of Boston's Capital Plant, The Urban Institute, 1981.

Years 1980-83 (Bonds Issued): Official Statement relating to the City's \$30,000,000 General Obligation Bonds dated September 1, 1983.

Years 1980-83 (Capital Expenditures): "Services from Public Capital: The Outlook for Boston's Physical Infrastructure," Joint Center for Urban Studies, 1983.

a Includes net amount raised through the sale of general obligation bonds and bond anticipation notes.

b Capital improvements fund only.

c Fiscal year changed in 1973 from calendar year to a July 1 through June 30 fiscal year; accordingly, 1974 figures cover the period of January 1, 1973 through June 30, 1974.

The credit crises of 1975 and 1976 marked a change in Boston's debt management. In the face of difficulty in entering the market and high interest rates, a partially successful effort was made to reduce annual borrowing amounts. The goal was to track annual principal retired and create a steadier borrowing pattern, following the demands of the market. The crises forced Boston into the position where it was under-borrowing for capital projects and supporting capital expenditures with the operating budget rather than supporting the operating fund with capital funds as in New York.

1981-PRESENT

The responses to the credit crises and recession of 1975-1976, however, were not enough to withstand the second wave of the recession in '78-'79, the judicial decisions leading to property tax refunds and the Proposition 2-1/2 limitation upon the tax levy. These developments led Moody's to suspend the ratings of Boston and 43 other local Massachusetts governments on March 27, 1981. Boston's rating was not reinstated until July 9, 1981, when a Ba, or speculative, grade was awarded. From November 1980 (the 2-1/2 referendum) until a tax anticipation note offering on October 15, 1982, the City did not attempt a public offering. Borrowing for capital projects was interrupted from June 1980 until September 1983.

The City of Boston is overly dependent upon property taxes and state aid to make up its revenues. When the 2-1/2 referendum was passed, the City's ability to support its bonds with its taxing power was in question as was the form and amount of State aid that would be available to compensate for the mandated reduction in the levy. In

addition, the judicial decisions awarding property tax abatements created substantial liabilities that the City was having difficulty paying out of its operating budget.

The Funding Loan Act of 1982 dealing with the property tax abatements led to the City's first bond offering in over 2 years. Debt service on the \$45 million issuance in January 1983 (which was not to finance capital projects) was effectively exempted from the 2-1/2 limitation upon tax revenues and marked the first ever secured bond offering by the City, as a lien was placed upon certain new and existing excise taxes. The offering marked a slight upgrade by Moody's from Ba to Bal. The City was commended for beginning to address its 2 1/2-related problems as well as the tax refunds and school spending in a stabilizing framework.

In the first half of fiscal year 1984, the City sold \$30 million in general obligation bonds as well as \$25 million of bond anticipation notes. These sales provided the first funding of capital projects since June of 1980. A significant portion of the funds were used to repay the \$27,700,000 that had been moved from the General Fund to the Capital Fund. The two financings took place within a month of each other. The \$30 million in limited tax general obligation bonds was a conservative amount. The \$25 million offering was done as bond anticipation notes as a private placement to avoid testing the long term market for a larger amount and to provide a lower interest rate. The \$30 million, which were without the additional support that the Tregor bonds had, received the same rating and were well accepted in the public market, attracting some institutional buyers. This issue will be the only limited tax issue in the foreseeable future, as the Bond Procedure Act of 1983

enables the City to issue unlimited tax general obligation bonds, eliminating the effects of Proposition 2-1/2 on the payment of debt service.

Revenue Anticipation Notes

Revenue anticipation notes sold prior to the last month of a fiscal year must mature before the end of that year. Notes sold during the last month of the fiscal year must mature within a year of their issuance and the amount of these notes cannot exceed the uncollected property taxes assessed during that fiscal year. By staying within these stipulations the City is limited in its ability to use borrowing to carry one year's deficit over into the next fiscal year and restricted in its ability to borrow in excess of anticipated revenues. The aggregate amount of notes cannot exceed the total tax levy of the fiscal year or, if that is not established, then 85% of the preceding year's levy.

The City is in the practice of financing a portion of operating expenses through the sale of such notes. This can be a risky and at times expensive practice, as credit problems and market dislocations can make it difficult to sell notes. Because the obligations are short term in nature, the large sums of money required to meet the obligations need to be available in a very short time frame. If a cash flow squeeze necessitates refunding, the broader public markets may not be available, and private buyers who are familiar with the City's obligations and credit will be called upon to "tide the City over".

Unfortunately, short term borrowing is also very often necessary. The City issues tax bills on a semi-annual basis and therefore has significant revenues flowing in

twice a year. In order to smooth the cash flow the City issues notes in anticipation of these revenues. Even when it is not absolutely necessary to borrow, the City may choose to finance to maintain a steady presence in the market (which appreciates consistency). A significant borrowing after an absence from the market can be a signal to buyers and the rating agencies that there is a fiscal problem. Traders and underwriters are also more willing to make a market for securities if they can predict that a similar amount will be available for purchase at the same time each year. Traders and underwriters are no different in this regard than any other retailer or wholesaler who likes to be able to predict inventory levels.

The following table shows the recent history of the City's short term borrowing in anticipation of tax revenues -- particularly the sizable borrowing in 1976-1978 and again in 1981 and 1983. The decline in the cash position of the operating and general funds during the credit crunch in 1976 and 1977 was in part floated by the short term borrowing in FY 1976 and FY 1977. The bulge in 1981 was in part due to a 12% appropriations increase, to payment of property tax rebates, and to the fact that the City was locked out of the long term bond market and had no other source of funds. It should be noted that while the volume decreased in fiscal 1982 the City borrowed twice, paying 13.33% and 11.22% in private placements with a group of local banks and one out of state bank. These represented the highest interest rates the City paid for any funds that this study came across. The volume of notes issued in 1983 related to the difficulties the City had in certifying the revaluation in order to issue year end tax bills. This also accounted for the outstanding amount at the fiscal year end, and was not resolved until the Commonwealth intervened and a private borrowing was arranged.

TABLE 2

TEMPORARY LOANS IN ANTICIPATION OF REVENUES
FY 1976-FY 1983

<u>FY Ended June 30</u>	<u>RANs Issues^a During FY</u>	<u>RANs Issued During FY as Percent of Levy^b</u>	<u>RAN's Outstanding at FY End</u>
1976	\$160,000,000	47.7%	\$30,000,000
1977	190,000,000	44.0	15,000,000
1978	100,000,000	24.2	-0-
1979	65,000,000	15.8	-0-
1980	65,000,000	15.7	-0-
1981	90,000,000	18.2	-0-
1982	50,000,000	12.0	-0-
1983	130,000,000	36.5	65,000,000

SOURCE: Official Statment, August 18, 1983.

^a Other than refunding.

^b Levy net of reserve for abatements.

BOND RATINGS

In 1983 the long term tax-exempt debt market reached a record \$81.2 billion. The sheer size of today's public market for corporate and municipal debt has made traditional word-of-mouth assessment of credit values insufficient. Preserving credit is a matter of perception as well as substance. The perceptions of the market place are based as much, if not more, upon the pronouncements of the rating agencies than upon the "story" told by the issuer during the marketing effort. The major bond rating agencies, Moody's Investor Service and Standard & Poor's (S&P), provide ratings intended to be an indication of the degree of risk associated with the bonds, and the probability of timely repayment of principal and interest. A high rating indicates little risk, a low rating increasingly

greater risk. The greater the risk the higher the interest rate that must be offered in order to attract investors to buy the bonds. Many institutional investors such as banks and pension funds can only buy bonds of a specified quality due to federal and state regulations. Similarly most trusts and estates are guided by the concept of the "prudent person" rule in selecting investment bonds.

Moody's and Standard & Poor's rate bonds on request by the issuer for a set fee based upon time and effort; they continue to maintain and review the rating until the bond is redeemed. The rating agencies rate virtually all types of general obligation and revenue bonds.

While there are minor differences, Moody's and S&P's rating scales are virtually identical. Moody's affixes 1 (e.g., A-1, Baa-1) to identify the strongest issues within specific groups; Standard & Poor's uses + and - to indicate, respectively, extra strengths and weaknesses. All agencies warn that a rating is not a recommendation to buy, sell or hold a security.

The higher the rating the lower the underwriting and marketing costs. Today, the cost of selling an AAA bond to the retail market may be \$2.50 less per \$1,000 than for a Baa rated bond. Similarly, the likelihood of selling an AAA bond institutionally is much greater. An institutional sale can cost an issuer \$7.50 per bond less than a retail sale.

The City of Boston's Rating

Moody's and S&P's valuation of Boston approaches the bottom of their ratings with a Bal and BBB+ respectively. As the history of the Moody's ratings demonstrate,

the City's credit in the eyes of the agency declined from 1976 and has just recently turned a corner. The City's decline was partly a reflection of a general trend affecting older cities in the northeast in the 1970's that was recognized by the credit markets and the rating agencies in the second half of the decade. The fiscal crises of New York City focused attention upon the financial practices of municipalities and led to a closer examination of municipal credits. Remarkably, the City of Boston, like other cities, had not been in the practice of issuing official statements before offering its bonds in the market place. It simply had not been necessary. In the same vein, the rating agencies had not expected the same level of financial controls as they do today.

Rating History
Moody's

1938 - 1959	A
1959 - 1973	Baa
1973 - 1974	Baal
1974 - 1976	A
1976 - 1981	Baa
3/27/81	Suspended
1981	Ba
1983	Bal

In addition to a changing economic environment, Boston suffered a political setback for one of its major revenue sources with the passage of Proposition 2-1/2. As noted, the City, as well as other localities in the Commonwealth, had its rating suspended and later lowered in the wake of the limitation upon its ability to levy property taxes to raise revenues. Since 1981 the city has been in the process of developing management techniques and improving its financial picture in order to reconstruct its credit fundamentally and in the eyes of the agencies and the market place.

The agencies most recently examined the City in August 1983 with regard to the \$30 million bond issue dated September 1. In their presentation, the financial officials representing the City reviewed fiscal year 1983, emphasizing the completion of revaluation, the allotment system created by the Funding Loan Act, and the general progress made in meeting the Tax abatement liabilities and managing the revenue restrictions imposed by Proposition 2-1/2. Projections for fiscal 1984 were made, stressing a continuing improvement trend with regard to annual fund balances. The credit quality of the bond issue was discussed as it was the first issue sold without unlimited taxing power behind it. The new Bond Procedures act was mentioned as providing the City with the opportunity to back future bond issues with unlimited taxing authority.

In their credit reports, the agencies recognized that the general economy in the area has improved and that downtown Boston as the region's financial and service center was well positioned to take advantage of the upswing. However, while Route 128 and the Quincy Market have done quite well, the trend for much of Boston has been one of decline. Population has been steadily decreasing since 1950 and the median family income, according to the 1980 census, lagged the Commonwealth and national medians by more than in 1970. The agencies expressed concern about the City's ability to generate revenue or take advantage of the increased economic activity.

Financial Position and Debt Burden of the City

While revenues and expenditures are discussed elsewhere in this report, they are of primary concern to this chapter. The City's credit picture is colored by its depen-

dence upon property taxes for over 40% of revenues, and state aid for over 25%, and by the use of nonrecurring revenues in this fiscal year to help balance the budget. In turn, the additions to the payroll, the difficulties in controlling the school budget, and the looming unfunded pension liability are all negatives that are mentioned.

The following table shows Boston's low rating compared to the 19 other largest cities in the nation. The table shows the population of each city as well as the estimated true value of its property base. In addition, it shows the overall debt representing all debt outstanding issued under the City's name, net of all self-supporting debt, whether by user fees or state reimbursements, and including the indirect debt or overlapping debt allocated to the City. An example of the latter would be the MBTA debt which includes a portion for which the City is responsible. The final two columns provide a "quick and dirty" means for comparing the debt positions of the different cities. One reflects the overall debt per capita and the other the overall debt as a percentage of the valuation figure. The ratings shown are as of November 1983. The data was published by S&P in June, 1983.

TABLE 3

COMPARATIVE DEBT BURDEN

<u>City</u>	<u>General Obligation Debt Ratings</u>	<u>Popu- lation in thou- sands</u>	<u>Estima- ted True Value in billions</u>	<u>Out- standing Overall Debt in millions</u>	<u>Per Capita Debt</u>	<u>% Value</u>
Houston	Aaa/AAA	1,595	\$ 60.8	\$ 1,545	\$ 969	2.5%
Dallas	Aaa/AAA	916	35.0	854	944	2.4
Los Angeles	Aaa/AA	2,967	64.7	713	240	1.1
San Diego	Aa1/AA	898	24.7	236	262	0.9
San Francisco	Aa1/AA	679	22.7	417	615	2.0
San Jose	Aa1/AA	629	17.7	218	346	1.0
Columbus	A1/AA	565	12.8	554	981	4.3
San Antonio	Aa/AA+	76	6.4	303	385	4.7
Milwaukee	Aa/AA+	636	10.8	378	594	3.6
Phoenix	Aa/AA	790	16.7	460	583	2.8
Memphis	Aa/AA	646	9.2	514	795	5.6
Indianapolis	Aa/*	765	11.0	372	486	3.4
Baltimore	A1/A	787	8.1	294	373	3.6
New Orleans	A/A+	558	7.8	316	567	4.1
Chicago	A/BBB+	3,005	47.9	2,727	907	5.7
Philadelphia	Baa/BBB+	1,650	20.5	1,060	642	5.2
Boston	Bal/BBB+	563	12.8	464	823	3.6
Cleveland	Bal/BBB	574	11.1	273	477	2.5
New York	Bal/BBB	7,072	131.9	12,151	1,718	9.2
Detroit	Ba/BB	1,203	10.7	732	608	6.8

From the table, one can see that the City's debt per capita is relatively high, although lower than cities such as Columbus and Houston with higher ratings. The percent valuation is much closer to the median and lower than cities such as Chicago and Memphis, which bear better ratings. This percentage valuation marks a significant improvement as a result of the property revaluation.

From the earlier display in the historical section (Display 1), it is clear that the amount of debt outstanding has leveled off, largely due to the lack of issuance in 1981 and 1982. The City, however, also retires its debt at an extremely rapid pace. Boston is presently scheduled to retire over 40% of its outstanding debt in the next 5 years and over 80% by 1994. The agencies typically consider 25% and 50% adequate for general obligation debt. While the City's retirement schedule has been quite conservative, it has also been restrictive, increasing the annual debt service burden and thereby limiting budgetary flexibility. The Bond Procedure Act of 1983 removes the legal pressure on the debt retirement schedule.

The agencies are aware the City has underfinanced its capital plant and that there is a backlog of worthwhile projects to be financed. The City will be issuing more bonds, barring unexpected events, in the next five years than it has in the past five years. The new Administration can expect the agencies to be looking to see that the selection of projects and control of capital budgeting is prudent and that a consistent policy is maintained in approaching the market. In the last four years the City has been careful in its approach to the market place, in part out of necessity. The agencies will look for maintenance of this caution.

Quality of Financial Management

The rating agencies usually recognize that certain economic developments are beyond the control of the municipality and they therefore look to the quality of the management of the municipality when they evaluate the City's ability to position itself to respond to change and control adversity. In recent years the City has made significant progress in this regard with the addition of the allotment system to control expenditures, the independent auditing of its books, improvement in parking revenue collection procedures, and the development work on interim financials. Improvement can still be made by establishing a coordinated capital budgeting process and by fully automating the cash flow.

Prospective Developments

The City will finance its maturing bond anticipation notes in the spring of 1984. Before this takes place the new financial management team will need to meet with the rating agencies. At such a meeting the new Administration could stress the record and financial management developments of the preceding years, review the financial position of the City as in part documented in this report, and then address its plans for managing the budget in the late spring as well as capital budgeting requirements over the life of the Administration. Insofar as a consistent line can be drawn with the approach of the prior administration, to gradually increase market participation and borrow to stay just slightly ahead of the debt retirement, it would probably be rewarded. For a new Administration, a demonstration of competence and the intent to conserve the quality of the City's credit will be most important.

THE DEBT MARKET

The historical record presented has attempted to show when the City has borrowed and how much. The presentation on the rating agencies attempted to show the record presented to the marketplace. The following section on the debt market attempts to show who the buyers are and what their relationship with the City of Boston has been like.

Investors who may purchase the City's securities make up the tax-exempt market, constituting both its whole-sale, or institutional, and its retail participants

Households or Individuals

This category of investor has been the most significant buyer in recent years. Bond issues of significant size very often need to demonstrate retail interest before institutions will feel the price is firm and they want to participate. While participating in most kinds of offerings, the retail investor plays a proportionally more important role in the purchase of longer term maturities and in non-rated and low rated offerings. The reason for this is the restrictions upon other buyers from buying such bonds. The individual investor has demanded higher interest rates since the economic recovery tax act reduced high income individuals' maximum tax bracket. Individuals also prefer bonds in States or localities which issue securities exempt from local taxes if these local taxes are significant. Individuals may also prefer local securities even with a lower after-tax yield because of the familiarity with the credit and the fact that it makes filing their tax returns easier.

Mutual Funds

Tax-exempt mutual funds have grown significantly in recent years and have been difficult to classify. They are retail in that they are marketed to and held by individuals, yet they are institutional as they purchase in large volume. Mutual funds or investment trusts are most often purchasers of long term securities with an A rating or better. Open-ended investment trusts will on occasion purchase bonds with a lower rating because they are able to trade their portfolios. There is a significant distinction between the interest rates for A and for Baa paper because this group of buyers rarely purchases Baa paper.

Tax-Exempt Money Market Funds

These funds are a subset of the mutual funds. Shares are owned by individuals. These funds, however, are limited by their prospectus to securities maturing in one year or less or securities which can be put in return for payment of the par amount in one year or less. These funds are few in number but large in size and have been growing rapidly, purchasing an increasingly large portion of the securities offered with maturities of one year or less. In rare instances, these purchases do have funds targeted for specific states to take advantage of a double or triple exemption. These funds usually purchase high grade paper but they are allowed to buy weaker credits. Money market funds can be expected to be an ever more important source of short term funds as they continue to compete with banks for what are in essence deposits. One of these funds recently purchased notes issued by the City.

Commercial Banks

Historically, commercial banks have been significant purchasers of general obligation debt, preferring shorter maturities up to the ten and twelve year range. This has been less the case in the last 2 years as their appetite for tax-exempt income has declined. They are still major purchasers of tax-exempt note offerings. The banks are credit conscious. During the credit squeeze for snow-belt cities in the 70's many banks reduced their holdings. Between 1973 and 1976 bank holdings grew quite slowly. Banks are not only credit conscious but also, according to Federal Reserve regulations, are to avoid speculative investments. Banks have at times been willing to support local government entities with lower credit ratings by purchasing their short term offerings, sometimes on a private placement basis. The local banks and one major money center bank have historically played this role for the City. Along with the Commonwealth, they have been the lenders turned to when cash flow problems have arisen. The importance of this role should not be minimized.

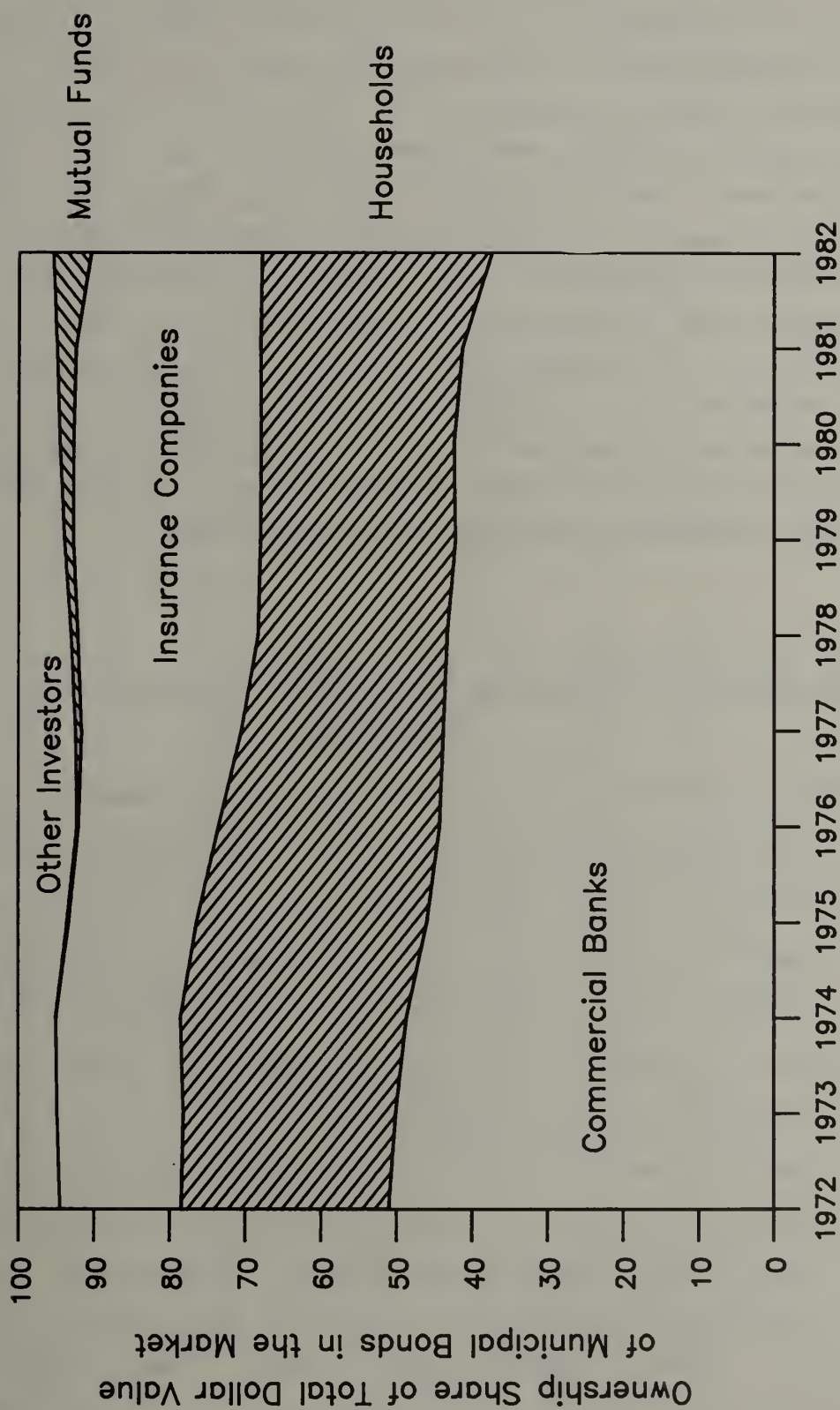
Insurance Companies

These companies purchase long-term securities and have often supported weaker credits. Until 1980, they were a driving factor in the tax-exempt market. The property and casualty companies, however, have not been in the profit swing of their business cycle. The withdrawal of the casualty companies from the market has contributed to the narrowing of the gap between taxable and tax-exempt interest rates.

Corporations

Corporations are in the short-term market but are only beginning to buy short-term tax-exempt paper as they return to profitability and the interest rates begin to justify themselves vis-a-vis the corporation's tax position. Corporations are extremely credit conscious, preferring to purchase triple A securities.

Investor Participation in the Municipal Bond Market

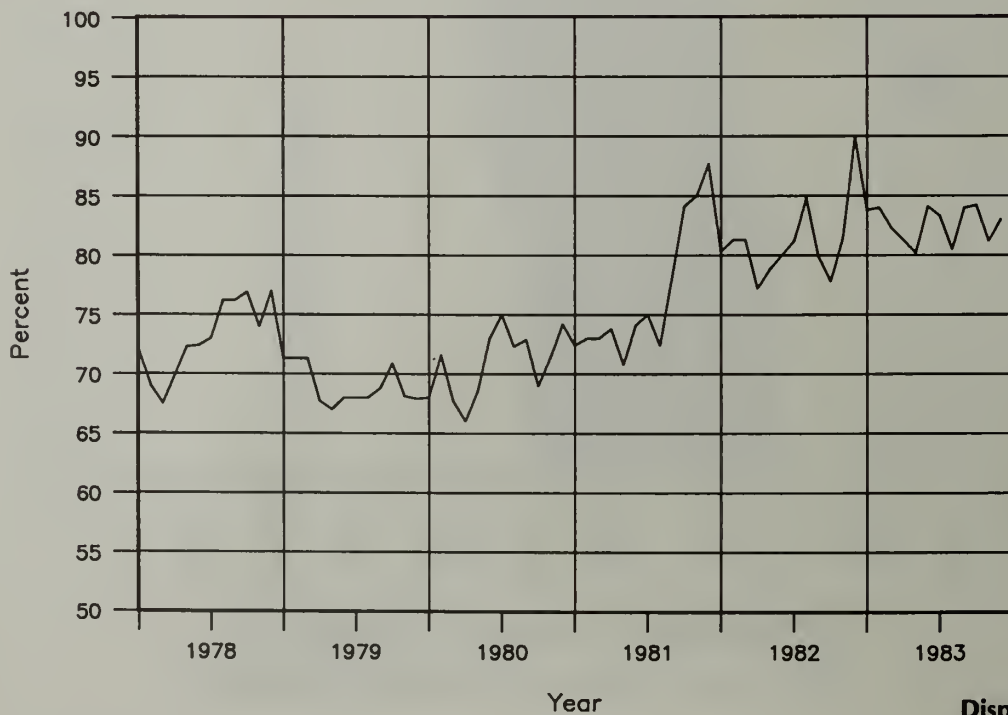


Year

Display 2

The different entities described above are the major participants in the tax-exempt market. Changes in their participation in the market, and with regard to specific bond issues, affects the value of those securities. The specific supply and demand factors of the tax-exempt market are the "technical" factors that may make the tax-exempt market move differently than other bond markets. The following display shows the changing fluctuation in the percentage of taxable rates achievable in the tax-exempt market by a BBB credit like Boston. When the percentage of the corporate or taxable rate in the display is high it means that cities like Boston are paying high interest charges relative to other interest rates, and the advantages of tax exempt borrowing have been minimized.

**Municipal Bond Yield as a Percentage of Corporate Bond Yield
BBB Rated**

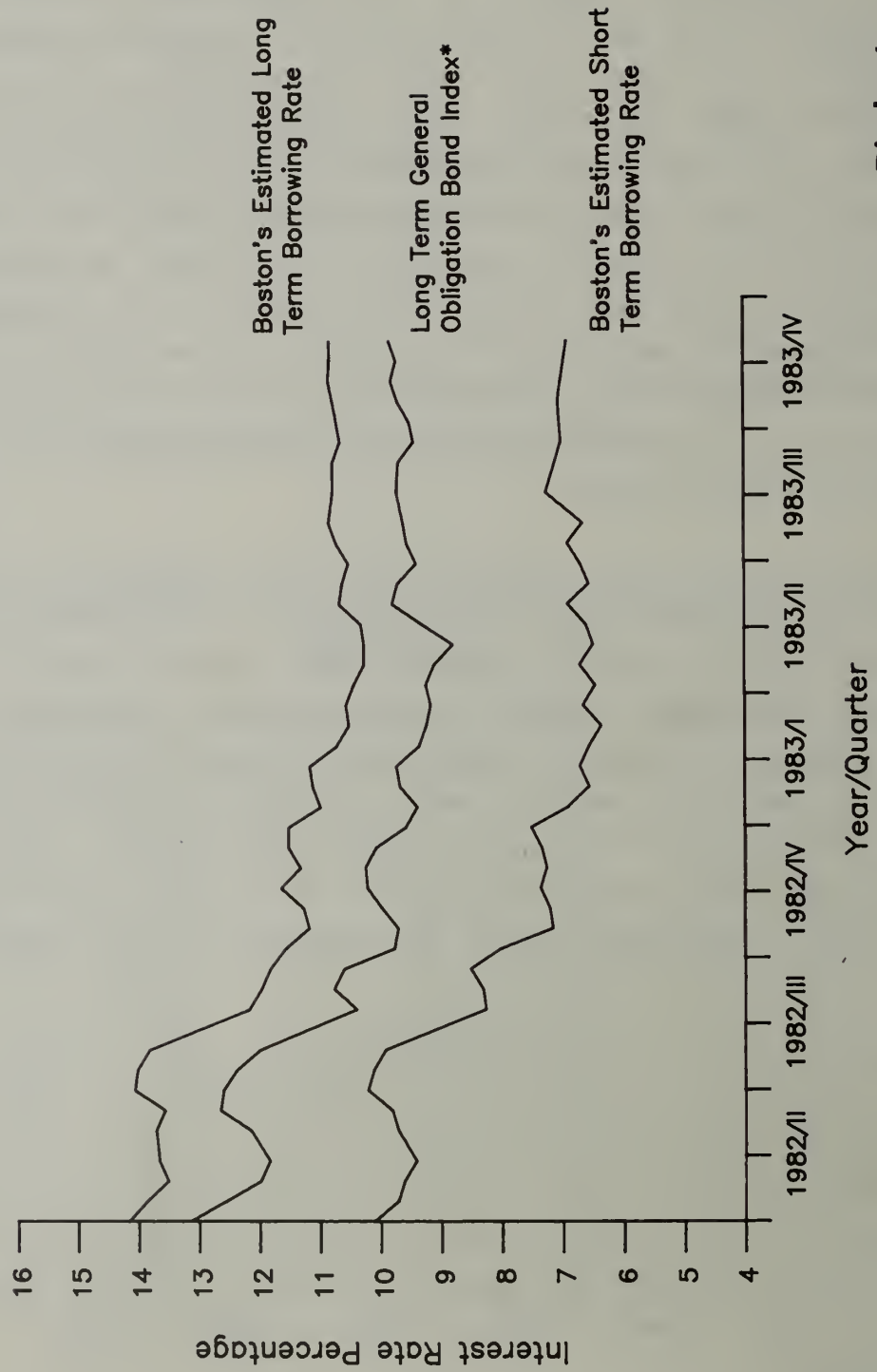


Display 3

The display also demonstrates that tax-exempt rates were technically high at the end of 1982 when many issuers rushed to market to close transactions before registration was required. Supply is a significant market factor. December, 1983 saw a similar rush to market by revenue bond issuers who were faced with being unable to issue bonds after January 1, 1984, until legislation concerning their status is clarified. Included in that group are mortgage revenue bond issuers that constituted 25% of the tax-exempt bonds issued in 1983. Given the reduction in offerings expected in the first quarter of 1984, it is expected that tax-exempt rates relative to other market rates should improve significantly. Boston may wish to take advantage of this as it prepares to bond out the anticipation notes maturing in the spring.

The City of Boston does not presently have access to the fullest range of the market. The following display shows the relationship between the way the City's long and short-term paper trades in relation to a standard index of 20 general obligation bonds with ratings ranging from BBB to AAA. The difference in rate between the broker quotations for Boston and the index shows the interest rate penalty that the City incurs because of the market and the rating agencies' perception as to the weakness of the credit.

Recent Trends in Boston's Borrowing Rates



* Bond Buyer 20 Year Index

Display 4

Boston is presently selling its bonds primarily to individuals or to dealers who are stocking the bonds as inventory to sell to individuals. The City has made progress in its recent issue in reaching the investment trusts or bond funds and some insurance companies who are willing to buy lower-rated credits. The distribution of bonds is, not surprisingly, centered in the major cities of the northeast and Chicago. However, the ability to retail bonds elsewhere, such as Florida, or to sell to an insurance company in Tennessee, is encouraging. The following table shows the distribution of the City's bonds from the mid-August offering.

TABLE 4

CITY OF BOSTON GENERAL OBLIGATION BONDS
August, 1983
(Sales Distribution Analysis)

<u>Location</u>	<u>Institu- tional Sales</u>	<u>Indi- vid- uals</u>	<u>Dealers</u>	<u>Totals</u>	<u>% of Total Sales</u>
Alabama		5		5	.02
Arizona		35		35	.11
Arkansas		5	10	15	.05
Connecticut		70		70	.23
District of Columbia		65	150	215	.72
Florida		505	10	515	1.72
Georgia		105		105	.35
Illinois	2,930 a	85	1,960	4,975	16.58
Indiana		30		30	.10
Maine		10		10	.03
Maryland		30	60	90	.30
Massachusetts	700 b, c	3,960	2,930	7,590	25.30
Michigan		215		215	.72
Missouri		20		20	.07
New Hampshire		150		150	.50
New Jersey		885	10	895	2.98
New York City	700 a	105	2,695	3,500	11.67
New York	1,895 a	675	630	3,200	10.67
Ohio		65	85	150	.50
Oklahoma	200 c			200	.67
Rhode Island	2,000 d	20	115	2,135	7.12
Tennessee	1,100 a, e	30		1,130	3.77
Texas	955 e	75	50	1,080	3.60
Virginia		25		25	.08
TOTAL	<u>10,480</u>	<u>7,170</u>	<u>8,705</u>	<u>26,355</u>	<u>87.85*</u>
No. of Transactions	17	299	44	362	

* These figures do not reflect undisclosed sales totalling \$3,645,000 (par value).

-
- a Investment trusts
b Non-financial corporations
c Trust companies
d Commercial banks
e Insurance companies

SUMMARY AND RECOMMENDATIONS

The new Administration will want to address the following:

- o Control over the approval and issuance of debt
- o The record to be presented to the rating agencies and the investment community
- o The borrowing goal for the spring and the succeeding years of the term

Control Over Approval and Issuance of Debt

The responsibility for debt policy and funding capital projects in the prior Administration rested with the Deputy Mayor for Fiscal Affairs and Treasurer-Collector. Initially, the responsibility could remain there with a reinstitution of the administrative directives controlling the approval and appropriation process. Any loan orders submitted to the City Council without a letter from the Treasurer should be vetoed and all contracts to be bid for approved projects must be reviewed by the Treasurer and published before proceeding.

Whether or not such responsibility remains with the Treasurer, there needs to be a central responsibility for determining the borrowing policy and capacity and relating this to the capital needs. This responsibility should be exercised on the basis of stated policy, and records should be maintained so that ongoing accountability and adjustment is possible. These records would include the status of all loan orders, not only whether bonds have been issued but whether funds have been spent or contracts awarded on a project-by-project basis and on a loan order basis.

If controls are improved at this level, the loan orders can be better controlled at the approval stage rather than just at the expenditure level, the volume of outstanding and antiquated loan orders can be reduced, and requests for loan orders can be more closely tied to borrowing goals. If this Administration were to go to the City Council with an armful of loan orders it wants rescinded, it would demonstrate an air of responsibility to the Council and the rating agencies which would only redound to its benefit.

The Record to be Presented to the Rating Agencies and the Financial Community

The Treasurer should also make whatever progress possible in improving financial management systems, specifically in more fully automating the cash flow. This would facilitate management of short-term debt, and increase the confidence of the rating agencies and the investment community.

The Administration should develop its "Boston Story" as quickly as possible and tell it to the rating agencies and to the institutions which have supported its short-term paper or which will be looked to to support it in the future. The strategies presented elsewhere in this report for improving the City's revenue position and controlling expenditures, if adopted, should be emphasized as part of an improving trend. If the City is to be upgraded, the impression of a positive trend must be maintained and cultivated. In the same vein, the investment community is attracted to a credit like Boston's if it feels that it is a "credit play" or an "improving situation". If investors own Boston paper or bonds during an upgrade, they make money and they feel good about what they bought.

Because of the work that will be required to put the budget together in May and June, work should begin on bonding out the anticipation notes as soon as possible. The rating agencies should be approached in late February or early March and a preliminary official statement prepared at the same time. This would also provide the City with maximum flexibility in entering the market at the most favorable time. This is especially important with a credit like Boston's, which benefits disproportionately from an improving market.

The Borrowing Goal for the Spring and Succeeding Years of the Term

If Boston can maintain or improve its credit, it will be able to increase the size of its bond issues. The City could borrow between \$50 million and \$60 million this spring. This would include:

- o \$25 million to pay maturing bond anticipation notes
- o \$15 million to \$25 million for the capital projects for which funds have been substantially committed (see the capital budgeting chapter)
- o \$10 million for neighborhood initiatives recommended by the new Administration.

Because the proposed bond issue would be paying off notes, \$25 million to \$35 million could be considered "new money," part of a new Administration attempt to "catch up" on capital spending in 1984 and begin its own program.

From the point of view of future borrowing policy, it should be emphasized that this year's total capital borrowing of \$80 million-\$90 million would then be equal to the

peak in 1976 and then should return, all things being equal, to the 1979 and 1980 level of roughly \$55 million a year. Such a borrowing would represent roughly \$10 million more than the expected amount to be retired each year and would only increase the outstanding amount incrementally. The total direct or gross debt outstanding would be raised to roughly \$510 million, still below the peaks of 1979 and 1980. This will not be a significant increase. As far as the marketplace is concerned, the city has borrowed \$45 million and \$30 million at one time successfully and is ready to increase the size.

The new Administration could develop its marketing effort, supplementing its customary capital borrowing, to take advantage of the Bond Procedure Act of 1983 and for the first time offer a portion of this spring's financing in the form of mini-bonds backing neighborhood initiatives. Mini-bonds are bonds sold in \$100 denominations rather than the customary \$5,000. As smaller units, the City's bonds would become more attractive to a wide range of the Boston community. The bond issue would not only represent an attempt to "catch up" on the City's infrastructure; it would also be part of a broader effort to start neighborhood projects while increasing participation by the community in Boston's affairs. More people would have the chance to benefit from investing in their City while supporting it.

APPENDIX

CITY OF BOSTON
RECORD OF GENERAL OBLIGATION BONDS
Fiscal Years 1976-1984

	<u>Dated Date</u>	<u>Aggregate Principal Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u> ^a
<u>FY-76</u>	3/01/76	\$85,000,000	1977 1978-1980 1981 1982-1984 1985 1986 1987-1996	9.75% 10.00 9.40 8.00 8.25 8.50 9.50
<hr/>				
<u>FY-77</u>	10/01/76	35,000,000	1977-1981 1982 1983 1984 1985 1986-1995	10.00% 7.00 7.20 7.30 7.40 7.75
	3/01/77	40,000,000	1978-1981 1982 1983 1984 1985 1986 1987 1988-1997	10.00% 7.10 6.50 6.60 6.70 6.75 6.80 7.25
<hr/>				
<u>FY-78</u>	11/01/77	40,000,000	1978-1980 1981-1984 1985-1986 1987 1988-1989 1990-1991 1992-1997	7.75% 6.00 7.00 6.20 6.30 6.40 6.50

^a Interest rates were often high in the early maturities to enable Boston to sell bonds at a premium. The premium was used to pay issuance costs.

CITY OF BOSTON
RECORD OF GENERAL OBLIGATION BONDS
Fiscal Years 1976-1984
(continued)

	<u>Dated Date</u>	<u>Aggregate Principal Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates</u> ^a
	4/01/78	25,000,000	1979-1982 1983 1984-1985 1986 1987 1988 1989-1992 1993 1994-1998	7.50% 5.80 6.00 6.10 6.20 6.30 6.40 6.50 6.60
<hr/>				
<u>FY-79</u>	5/01/79	55,000,000	1980 1981-1984 1985 1986 1987 1988 1989-1990 1991-1992 1993-1999	6.50% 8.50 6.50 6.60 6.70 6.75 6.80 6.90 7.00
<hr/>				
<u>FY-80</u>	3/01/80	25,000,000	1981-1999	10.50%
	6/01/80	30,000,000	1981-1991 1992-1993 1994 1995 1996-1998 1999-2000	7.75% 8.00 8.10 8.25 8.40 8.50
<hr/>				
<u>FY-1981</u>	No Bonds Issued			
<hr/>				
<u>FY-1982</u>	No Bonds Issued			
<hr/>				

CITY OF BOSTON
RECORD OF GENERAL OBLIGATION BONDS
Fiscal Years 1976-1984
(continued)

	<u>Dated Date</u>	<u>Aggregate Principal Amount</u>	<u>Maturity Dates</u>	<u>Interest Rates ^a</u>
<u>FY-1983</u>	1/01/83	45,000,000	1985	6.25%
			1986	6.75
			1987	7.50
			1988	8.00
			1989	8.75
			1990	9.25
			1991-1992	9.50
<hr/>				
<u>FY-1984</u>	9/01/83	30,000,000	1984-1989	10.50%
			1990	9.25
			1991	9.50
			1992	9.75
			1993	10.00
			1994	10.20
			1995	10.30
			1996	10.40
			1997	10.50
			1998	10.60
			1999	10.70
			20000-2003	10.75

Capital Budgeting



INTRODUCTION

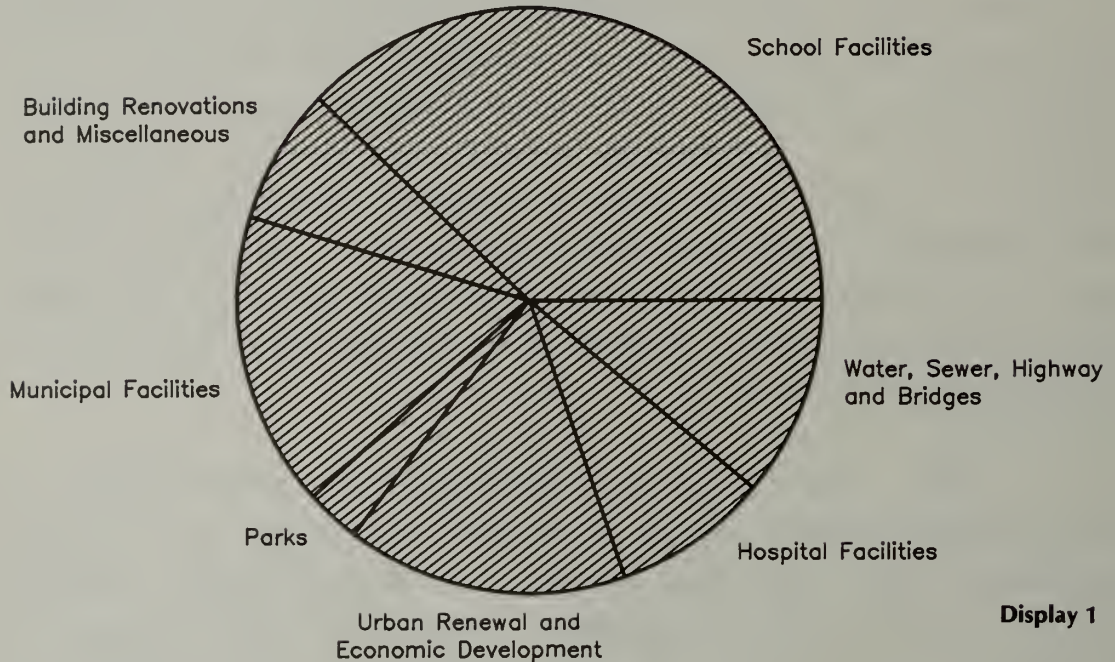
Capital budgeting is a multi-step process involving the allocation of resources to alternative projects. An efficient capital budgeting system provides procedures for (i) identifying numerous potential projects, (ii) evaluating these projects with regard to predetermined criteria, (iii) ranking these projects, (iv) selecting the "optimal" mix of projects and (v) monitoring actual performance relative to budgeted amounts. The City's capital budgeting practices are fragmented, informal and inefficient. Multi-year planning is lacking. Through the continued deferral of necessary capital projects, Boston has clearly been disinvesting in its infrastructure.

The City's capital budgeting practices deviate so significantly from widely accepted standards as to raise questions about how many needed facilities remain un-built due to inefficient management practices. The impact of fragmented and informal capital budgeting practices cannot be translated into potholes, cracked sidewalks, closed bridges or boarded windows -- nevertheless, the impact is real.

Capital budgeting decisions are important because they often involve significant sums of money and influence the ability of government agencies to efficiently provide designated services in future years. During the period 1965-1983, Boston spent over \$1.7 billion on capital expenditures. City-financed capital expenditures during 1965-1980 cost approximately \$800 million, as identified by component in Display 1.

Capital Expenditures by Function, 1965–1980

Total Expenditures = \$778.4 Million



Display 1

This chapter focuses on capital budgeting within the City of Boston with emphasis on existing procedures, in-process capital projects, and the short-run supply and demand for capital resources. This section provides a brief introduction to the government entities involved in the City's capital budgeting process. Next, the chapter examines current capital budgeting procedures in several key City agencies. The lengthy discussion of procedures reflects the need to highlight existing weaknesses as a first step in developing an efficient capital budgeting system. The third section addresses the backlog of public capital needs and short-run potential for balancing these

needs with anticipated available capital resources. Finally, the findings are summarized and followed by recommendations aimed at significantly improving the City's capital budgeting process.

Responsibility for Boston's public capital investment is divided among numerous government entities. Primary responsibility for the City's public buildings rests with the Public Facilities Department and, to a lesser degree, the Real Property Department. Created by state legislation in 1971, the Economic Development and Industrial Corporation of Boston functions as the City's lead agency for industrial development and presently owns and operates three industrial parks. Responsibility for Boston's physical infrastructure is fragmented among the City's Public Works Department, the Parks and Recreation Department, and several special purpose authorities and commissions discussed below. The Neighborhood Development and Employment Agency oversees and coordinates neighborhood development. Finally, the Boston Redevelopment Authority, established in 1957, serves as the City's planning agency and urban renewal authority, subject to the powers and duties delineated in Chapter 121 of the General Laws.

Created by state legislation in 1977, the Boston Water and Sewer Commission is responsible for city-wide water distribution and sewer collection facilities. The Metropolitan District Commission's responsibilities include selected roads, bridges and parks located within Boston plus water supply, sewer collection and sewerage treatment facilities. The Massachusetts Bay Transportation Authority operates regional mass transit and commuter rail systems which serve Boston and 78 other cities and towns. The Massachusetts Turnpike Authority maintains an express highway which extends from western Massachusetts to the center of

downtown Boston, plus related bridges and tunnels. The Massachusetts Port Authority, established in 1959, operates Logan International Airport, the Port of Boston, and the Tobin Bridge. The state Department of Public Works' responsibilities also include several major streets and bridges located within Boston. Finally, the infrastructure is affected by an increasing number of corporations including Boston Edison, Boston Gas, Cablevision and New England Telephone and Telegraph.

CAPITAL BUDGETING PROCEDURES

Among the government entities which are directly involved in the allocation of Boston's limited capital resources, capital budgeting procedures vary considerably. This section focuses on the procedures relating to the identification, refinement, prioritizing and selection of capital projects, plus the monitoring of contract compliance by architects, engineers and contractors subsequent to contract award. The City's purchasing and contracting procedures are separately evaluated in another chapter contained within this report.

Boston Redevelopment Authority

As noted, the Boston Redevelopment Authority (BRA) serves as the City's planning agency subject to the powers and duties delineated in Chapter 121A of the General Laws. These statutory powers are significant and include:

... the exclusive power (subject to the approval of the mayor), both before and after the approval of a project, to grant from time to time permission for the project to deviate from such law (Chapter 180

of the General Laws), code, ordinance or regulation if it finds that such permission may be granted without substantially derogating from the intent and purposes of such law, code, ordinance or regulation.

The BRA also approves or disapproves all requests to form a corporation for the purpose of undertaking and carrying out under Chapter 121A of the General Laws a project in Boston. In lieu of property taxes, Chapter 121A corporations pay a certain percentage of gross income to the state each year and \$10 per \$1,000 assessed valuation to the city.

As a redevelopment authority as defined in Chapter 121B of the General Laws, the BRA has numerous powers including the ability to: (i) take by eminent domain, (ii) receive loans, grants or other contributions from the federal government or from any other source, (iii) clear and improve any property acquired by it, (iv) engage in or contract for the construction, reconstruction, alteration, remodeling or repair of any clearance, housing, relocation, urban renewal or other project, (v) make relocation payments, and (vi) borrow money.

The BRA planning and development process begins, in part, with the identification of potential development areas. This identification utilizes input from various internal and external sources. Based on initial research, including an evaluation of neighborhood sentiment, some potential development areas are rejected. The remaining ones are individually researched and guidelines are developed (economic feasibility, design features and the like) and refined through an iterative process involving resources from the BRA's Policy and Planning, Development, and Community Development areas.

Based on the quality of submitted proposals and presentations, the BRA tentatively selects one developer for a specific project. The selection must be confirmed by a vote of the BRA Board of Directors. After meeting specified requirements, including the substantial completion of drawings and financing arrangements, the developer is given a "final" designation and contract agreements are signed. The length of time between the tentative and final designation of a developer varies for each project with significant projects frequently requiring six to twelve months.

BRA monitoring of contract compliance generally is twofold. Compliance relative to employment goals is monitored by the Director's office staff. BRA architects, engineers and project coordinators are responsible for ensuring compliance relative to contract plans and specifications.

Public Facilities Department

The City does not prepare a formal multi-year capital budget. Prior to 1966, each City department was generally responsible for its own facility construction and, accordingly, established its own capital budget and hired its own architects. There was no central planning agency for capital projects. In recognition of the need for central planning and control, the Public Facilities Department and the related Commission were created in 1966. Chapter 642 of the General Laws provided the Public Facilities Commission with broad powers aimed at the more efficient and economical construction and alteration of municipal buildings. These powers include (subject to selected specific limitations) responsibility for (i) preparing, and from time

to time amending, a long-range capital program, (ii) selecting the site for each new structure and facility, (iii) preparing necessary plans and specifications, (iv) constructing, reconstructing, remodeling and demolishing structures and facilities, and (v) making major alterations and major repairs to all structures and facilities belonging to the City, other than school buildings and their yards.

The PFD's powers include the ability to take by eminent domain, subject to selected restrictions. In general the PFD retains title to newly constructed facilities for twelve months. After the warranty period has expired, the facility's title is transferred to the user department. Excluding School Department facilities, substantially all repairs costing in excess of \$2,000 are administered by the PFD. It also handles major repairs and renovations to School Department facilities. During the period 1966-1975, the Public Facilities Department occupied a significant and increasing role in the capital planning process.

Despite the creation of the Public Facilities Department, central capital planning and budgeting remained relatively ineffective as of 1975. As stated in the CIPMIS Index to Materials,

In the late fall of 1975 ... everyone was clamoring for information about projects. Existing information systems were poorly suited to meet these requests ... The upshot of the analysis (by an outside consultant) showed that people in the department (Public Facilities) felt that there was inadequate project budget control, a lack of accurate cash flow estimates for the various funds being used, lack of a thorough and common manner of presenting capital improvements program data for all uses, and a need for improved administration of contract/accounting/

project relationships as well as a need to manage project milestones and project budgets.

In response to the fiscal "crisis" of 1975, several existing procedural controls were reemphasized and selected additional controls were instituted in 1977. They are outlined below. In addition, final development of a capital improvements program management information system (CIPMIS) was supported.

- o The funding for contracts was limited by having a designated individual in the Office of Program Development review all loan orders before submission to the City Council.
- o The awarding of contracts was limited by having a designated individual in the Office of Program Development check all advertisements relating to capital projects before publication in the City Record.
- o Access to capital accounts was restricted by having the Auditor establish these accounts only after receipt of a letter in which the Collector-Treasurer expressed an intention to issue bonds, notes or certificates of indebtedness as authorized by individual loan orders.
- o Unliquidated balances and unused loan orders were recommended for close-out.

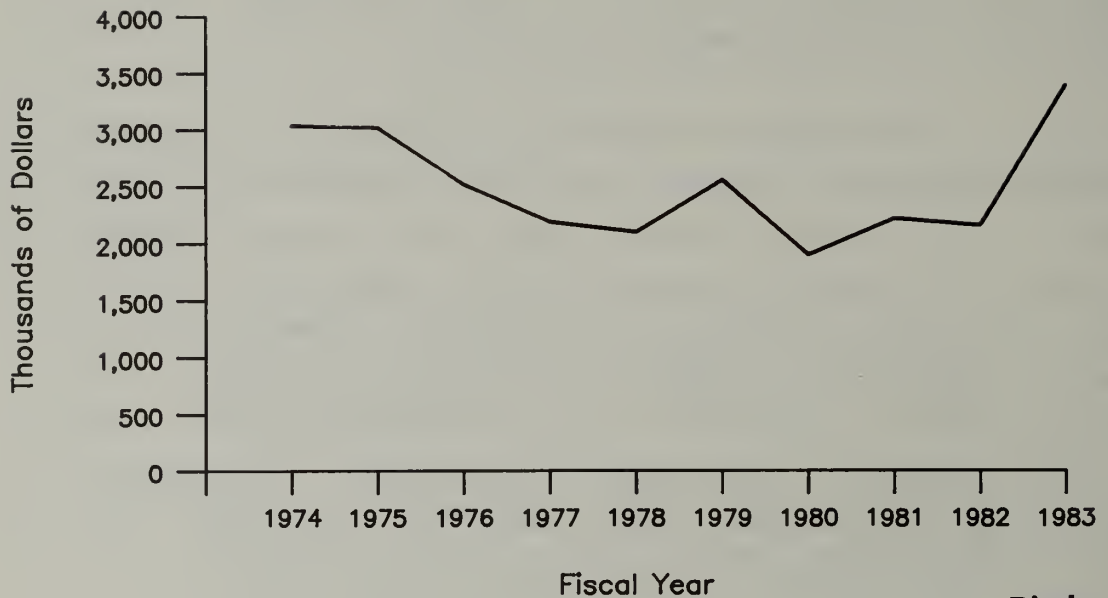
The Office of Program Development was established in 1976 partially for the purpose of further consolidating the capital planning and budgeting process. Working closely with the Deputy Mayor for Fiscal Affairs and applicable City departments, OPR had primary responsibility for defining and assigning priorities to neighborhood capital improvement needs and for coordinating these improvements with other public and private activities. OPR also worked closely with the Office of Housing, Construction and Development which

primarily evaluated and monitored the construction schedule and cash flow for all capital projects. During the period 1976-1983, primary responsibility for capital planning and budgeting effectively shifted from the Public Facilities Department to various mayoral offices.

In the fall of 1983, an individual responsible for capital budgeting resigned from the Office of Fiscal Affairs. This vacancy, coupled with the continued absence of a responsive project control system and other procedural weaknesses, has resulted in a relative absence of central capital planning and budgeting. Capital planning and budgeting remains fragmented with project management hampered by the absence of responsive information. Interagency coordination is dependent upon numerous committees and informal communication.

During the period 1974-1983, the annual operating budget cost of repairs and maintenance administered by the Public Facilities Department ranged from \$1.9 million to \$3.4 million. These costs are summarized in Display 2.

Repair and Maintenance Costs of Public Facilities Department



Display 2

Under Section 31B of Chapter 642 of the General Laws, after obtaining the consent of the mayor, the Public Facilities Commission is authorized to lease, sublease or sell, grant or convey any surplus land to various government entities or, subject to specified advertising requirements, any person, firm, corporation or trust. Surplus land is defined to mean "land, buildings and real estate now or hereafter belonging to the City and in the care, custody, management and control of said commission (except parks and playgrounds)," subject to specified limitations. Existing policies governing the surplus property disposition process are well documented by the Public Facilities Department and will not be discussed in this chapter. A summary of Public

Facilities Department properties which were in various stages of disposition as of December 1, 1983 follows:

TABLE 1

PUBLIC FACILITIES DEPARTMENT
PROPERTIES AWAITING DISPOSITION

<u>Description</u>	<u>Number of</u>	
	<u>Buildings</u>	<u>Lots</u>
Schools	35	16
Real Property	31	5
Police	3	1
Health and Hospitals	3	-
Library	2	-
Fire	1	3
Other	6	8
Pending Requests (awaiting transfer from the Real Property Department)	<u>25</u>	<u>2</u>
TOTAL	<u>106</u>	<u>35</u>

The Public Facilities Department also assumes responsibility for providing rental office space to departments on an as-needed basis. The cost of these real estate rentals is absorbed by the PFD and is not allocated to the departments in need of space. During the period 1974-1983, the annual cost of these real estate rentals ranged from \$638,000 to \$1,039,000. With the anticipated termination of a major lease effective December 31, 1983, the annual cost of real estate rentals absorbed by the PFD should decrease to approximately \$400,000. Departments and agencies are not required to rent office space through PFD and several rentals exist which are paid directly by the user department.

Under Chapter 642 of the General Laws, the Public Facilities Commission is assigned responsibility for preparing and from time to time amending a long-range capital improvement program. Section 5 of Chapter 642 requires every entity to which the City appropriates money to conduct research designed to define improvements in the services

offered or provided by that entity if so requested by the Public Facilities Commission. The long-range capital improvement program,

shall specify the capital improvement projects to be undertaken in the ten years immediately following the year in which such program is prepared, the estimated cost of each such project, the proposed commencement and completion dates thereof, and, to the extent practicable, the proposed or alternative sites therefor.

While it is unclear whether a formal long-range capital improvement program has ever been prepared, no such program has been prepared for the past five years.

As stated in a procedural memorandum entitled, "Guidelines for Capital Improvement Planning," the annual capital budget control process is intended to commence in early November when departments and agencies are requested to submit capital improvement project proposals for those projects which they wish to undertake in the following fiscal year. Ideally, these projects should be drawn from a master plan established by each department and should be assigned priorities. The estimated cost of each project should be as detailed as possible with key assumptions clearly stated.

Upon receipt, the departmental lists of proposed capital improvement projects are evaluated for reasonableness of work scope and cost by Public Facilities' engineers. The engineers document these evaluations in written reports. Departments which failed to assign priorities to proposed capital improvement projects are contacted. During this same time frame, capital improvement projects proposed by neighborhood groups and other persons are similarly evaluated by Public Facilities' engineers.

A proposed annual capital budget is developed for all City departments and agencies by the Associate Director of the Public Facilities Department. This budget is reviewed by the Director of the Public Facilities Department and the Public Facilities Commission. In this process, attention is focused on the City's estimated capital budget ceiling established by the Collector-Treasurer. Where possible, projects are leveraged in order to maximize the use of federal, state or non-loan funding sources.

Responsibility for monitoring contract compliance is primarily assigned to an on-site "clerk of the works." On larger projects, a full-time project manager and consultants, as required, also check to ensure that construction proceeds in accordance with contract plans and specifications. When construction problems or disputes arise which potentially require additional resources, the Associate Director and Chief Legal Officer of the Public Facilities Department provide necessary guidance. The Corporation Counsel's office is rarely utilized by the Public Facilities Department.

Public Works Department

The Boston Public Works Department (PWD) is responsible for the care and maintenance of major components of the City's infrastructure, particularly the construction, repair and maintenance of the City's streets and sidewalks, 45 bridges and City-owned lighting system. PWD also arranges for street cleaning, rubbish removal and disposal plus snow removal. Originally, the Boston Water Works was an integral part of PWD. However, with the creation in 1977 of the Boston Water and Sewer Commission, PWD yielded its responsibility for the operation of Boston's water and sewer systems.

The Public Works Department is functionally organized into four principal divisions -- maintenance, sanitary, engineering and administration -- as summarized below.

Maintenance is the largest of the four divisions and has five sub-divisions:

- o Automotive: responsible for PWD's heavy equipment and light vehicles.
- o Lighting: responsible for maintenance and care of the City-owned portion of Boston's street lighting system.
- o Bridge: responsible for the care and maintenance of City-owned structures including drawbridges and 40 other bridges.
- o Highway: responsible for maintenance, repair and construction of City-owned streets and sidewalks plus snow removal.
- o Facilities: primarily responsible for the care and maintenance of the Frontage Road Central Maintenance Facility.

Sanitary is responsible for the removal of refuse and garbage.

Engineering consists of survey, design and planning, and contract compliance functions.

Administration has various responsibilities including a major role in the capital budgeting process.

PWD's capital budgeting procedures commence with the identification of potential projects. PWD currently follows a capital planning horizon of 2-3 years. Most potential projects currently involve street repair work. These projects are researched by the engineering department

with emphasis on such factors as traffic flow, current condition of the street or sidewalk, age of the street, and future planned development and utility work. Based on this research, a prioritized list of projects is developed.

The next step in the capital budgeting process involves design work and the preparation, in-house, of an engineering plan and contract specifications. (The City's procedures governing the award of contracts are addressed in the Contracts and Purchasing chapter of this report.)

Having developed a prioritized capital improvements program, PWD attempts to match projects to available funds. A summary of relevant state and federal government funding programs, administered by the Massachusetts Department of Public Works, appears below.

- o Chapter 90 -- state funds, discussed later in this chapter.
- o Transportation Bond Bill -- state funds, also discussed later in this chapter.
- o Public Works Economic Development Program -- relates to road repairs and construction in economic development areas. The city has received funds for two projects, Lafayette Mall and the former Boston Army Base.
- o Urban Systems Program -a federally funded program for the repair or replacement of the national network of highways and roads within urbanized areas.
- o Interstate Program -- another federally funded program for use on repairs and construction of primary roads which connect the major urban centers.

City financing is also available for selected capital projects, subject to economic and political constraints. Sources of City funds include general obligation bonds, the operating budget and revenue generated by street cut permits (a charge to utilities for opening holes in streets and sidewalks). Current revenue from street cut permits is estimated at \$750,000.

A consultant's multi-phased review of the street cut permit fee and deposit system has highlighted the system's archaic structure and identified a source of potential additional revenues. Phases I and II are complete. The review's findings include:

- o \$3.5 million of the current deposit account balance appears to be over 10 years old.
- o Deposits ranging from \$3.0 million to \$7.3 million are available for transfer.
- o Existence of many unbilled permit fees; also a significant balance in accounts receivable.

A letter to award Phase III work remains unsigned. The estimated cost (\$250,000) of completing the review should be evaluated in light of the significant management efficiencies and revenues which may result.

Real Property Department

The Real Property Department (RPD) has a relatively limited role in the capital planning process, but it is responsible for (1) the care and maintenance of City Hall and city buildings which have municipal functions, (2) space allocations within City Hall and (3) the disposition of abandoned and foreclosed properties. Prior to the creation

of the Public Facilities Department in 1966, the Real Property Department was an integral part of making capital improvements to the City's plant.

NDEA

The Neighborhood Development and Employment Agency (NDEA), acting in conjunction with the Boston Redevelopment Authority and the Economic Development Industrial Commission, is a major participant in the City's planning and development efforts.

Created in February 1982, NDEA reflects the consolidation of mayoral departments with responsibility for neighborhood employment and economic development services, as well as the neighborhood planning role of the BRA. In December 1982, NDEA assumed the additional responsibilities of the Mayor's Office of Housing, which became an operating division within NDEA.

NDEA's operational and program support functions are financed solely by federal programs, including Community Development Block Grants (CDBG), employment and training funds (JTPA), and, to a lesser extent, the Comprehensive Employment and Training Act (CETA).

NDEA's capital responsibilities principally involve stimulating economic activity through targeting of funds into neighborhoods. A small portion of funds are generally committed to infrastructure improvements, selected to enhance designated development areas with sidewalks, parking facilities and small parks. Overall, NDEA's role in the City's overall capital budgeting process is limited.

EDIC

The Economic Development and Industrial Corporation (EDIC) was created in 1971 with a mandate "to stem the loss of industry and industrial jobs in Boston, to revitalize land and help enhance the tax base." EDIC provides a variety of services to help companies relocate into one of its three industrial parks, including job training and financial assistance to eligible companies. EDIC's financial assistance primarily relies on industrial revenue bonds, federally backed securities, federal block grants and private investment through participating banks.

BALANCING SUPPLY AND DEMAND

The excess of public capital investment needs over available public capital resources is well documented. In order to understand the constraints which govern short-run capital planning efforts, it is helpful to understand the historical shifts in public capital investments and resources which have occurred.

Prior to 1965, the City of Boston expended relatively insignificant amounts on City-funded capital improvements due, presumably, to political and economic considerations. This neglect of public capital resulted in dilapidated municipal buildings and a deteriorating infrastructure. (As used throughout the balance of this chapter, infrastructure refers to publicly provided capital systems including roadways, bridges, tunnels, water and sewer systems, airports, seaports, plus mass transit and rail systems.) However, during the period 1950-1965, several authorities were created and provided with financing mechanisms aimed at ensuring that the existing plant was adequately maintained and new facilities were constructed.

These newly created authorities and their years of establishment included the Massachusetts Turnpike Authority (1952), the Boston Redevelopment Authority (1957), the Massachusetts Port Authority (1959), and the expanded Massachusetts Bay Transportation Authority (1964). These authorities used federal, state and local tax revenues, plus user fees and bond monies, to perform their designated functions.

During the period 1965-1976, the City's public capital program expanded continually. The previously noted fiscal "crisis" of 1975 resulted in reduced but significant capital expenditures during 1977-1980. As evidenced by Display 3, general obligation bonds and bond anticipation notes provided the monies expended on the City's capital program during the entire period 1965-1980.

With the passage of Proposition 2-1/2 in November 1980, the City's capital spending was sharply curtailed. Many design, engineering and construction contracts were cancelled. Capital expenditures through the Capital Projects Fund amounted to approximately \$24.7 million in fiscal 1981, \$7.6 million in fiscal 1982 and an estimated \$8-\$10 million in fiscal 1983. Between November 1980 and passage of a \$30-million issue dated September 1, 1983, the City sold no bonds for capital projects. Nevertheless, the City's need to complete selected in-process capital projects, coupled with the inability to defer all major repairs and renovations, required the temporary utilization of General Fund revenues to fund capital expenditures. During fiscal 1984, the City repaid approximately \$28 million from the Capital Projects Fund to the General Fund to reimburse it for transfers previously made to the Capital Projects Funds.

A summary of 1965-1980 capital expenditures relating to bond issues appears in Display 3. Total capital expenditures are reported by fiscal year of expenditure. Due to apparent differences in the method of classifying capital expenditures, the annual amounts shown in this table differ from the amounts listed in the preceding table.

During the sixteen-year period 1965-1980, 38% of City-funded capital expenditures related to school facilities. These expenditures were partially in response to state and federally mandated desegregation plans. An additional 9% of City-funded capital expenditures, relating to hospital facilities, also reflected externally imposed requirements as Boston City Hospital experienced accreditation problems. Expenditures on municipal buildings represented 16% of City-funded capital expenditures and include the cost of constructing a new City Hall, the Boston Public Library annex, plus new fire and police stations. Expenditures on urban renewal and economic development projects represented another 16% of City-funded capital expenditures (but are a small percentage of the amounts expended in Boston under the federal urban renewal program and the Community Development Block Grant program).

In addition to the City's capital expenditures financed by general obligation bonds, public capital projects in Boston were funded by several other sources. The cost of "routine" repairs and maintenance was financed in conjunction with other operating expenses. The amounts expended on repairs and maintenance are accumulated on an individual department level. A meaningful estimate of these costs is not possible due to the varied nature of costs recorded.

City of Boston Capital Fund Expenditures and Bond Issues 1965 to 1983

(Dollars in Millions)

Fiscal Year	Bonds Issued ^a	Capital Expenditures ^b
1965	12.4	14.1
1966	16.5	19.8
1967	32.2	24.6
1968	24.9	31.6
1969	39.0	31.5
1970	53.8	56.8
1971	77.2	76.7
1972	84.0	72.2
1974 ^c	70.1	70.5
1975	60.0	92.1
1976	85.0	109.0
1977	75.0	59.5
1978	65.0	51.2
1979	55.0	45.9
1980	55.0	61.4
1981	—	24.7
1982	—	7.6
1983	45.0	9.0

Sources: *The Future of Boston's Capital Plant*, The Urban Institute, 1981.
Official Statement relating to the City's General Obligation Bonds dated September 1, 1983.

"Services from Public Capital: The Outlook for Boston's Physical Infrastructure," Joint Center for Urban Studies, 1983.

- a. Includes net amount raised through the sale of general obligation bonds and bond anticipation notes.
- b. Capital improvements fund only.
- c. Fiscal year changed in 1973 from calendar year to a July 1 through June 30 fiscal year. Accordingly, 1974 figures cover the period of January 1, 1973 through June 30, 1974.

TABLE 2

CITY OF BOSTON BOND ISSUE ANALYSIS
CAPITAL EXPENDITURES BY FUNCTION,
1965 TO 1980
(dollars in millions)

Year	Total	Water, Sewer, Highway, & Bridges	Municipal Facilities	School Facilities	Urban Renewal & Economic Development	Hospital Facilities	Building Renovations and Misc.	Parks	Equipment
1965	\$ 12.4	\$ 3.0	\$ 4.8	\$ 1.0	\$ 1.0	\$ -	\$ 1.3	\$ -	\$ 1.3
1966	18.5	3.2	5.1	2.0	3.7	-	4.2	-	0.3
1967	32.2	3.7	13.8	4.5	4.2	-	3.0	-	3.0
1968	29.9	6.1	14.3	-	6.5	-	6.0	-	1.0
1969	43.6	7.4	16.5	2.5	10.5	-	6.0	-	0.7
1970	50.0	8.9	10.5	12.5	9.5	4.0	3.1	0.4	1.1
1971	62.7	0.9	13.2	30.5	9.5	7.0	-	1.6	-
1972	84.0	8.2	4.9	38.5	3.7	20.2	3.7	4.5	0.3
1973	27.0	2.5	-	10.0	6.5	8.0	-	-	-
1974	43.1	3.0	5.2	14.8	8.1	6.0	1.6	3.4	1.0
1975	40.0	1.1	6.7	11.8	6.2	6.0	-	8.2	-
1976	120.0	11.6	2.6	70.1	19.5	10.0	2.4	-	2.0
1977	80.0	6.5	7.0	46.5	15.2	2.6	1.2	-	1.0
1978	25.0	1.1	0.9	15.8	1.7	2.4	0.9	1.0	1.2
1979	55.0	5.8	6.1	23.5	12.2	1.0	2.5	1.2	2.7
1980	55.0	12.6	15.9	10.2	4.2	-	4.8	3.1	4.2
Total	\$778.4	\$85.6	\$127.5	\$294.2	\$122.2	\$67.2	\$38.5	\$23.4	\$19.8
8	100.0	11.0	16.4	37.8	15.7	8.6	5.0	3.0	2.5

SOURCE: An Overview of Boston's City-Funded Capital Expenditures, 1960-1980. A publication of the BRA Research Department, with data originally from the City of Boston, Office of Fiscal Affairs.

The Commonwealth of Massachusetts provides direct financial support to Boston's capital program in two principal areas. First, under Chapter 645 of the General Laws, as amended, the Commonwealth reimburses the City for approximately 50% to 75% of school construction costs and 20% to 75% of interest costs. The cost of school projects ordered or approved by a court as necessary for desegregation or such projects as may be required in the judgment of the Board of Education to reduce or eliminate racial imbalance are 90% reimbursed by the Commonwealth. In the case of any school construction project which is financed from the proceeds of any sale of bonds or notes to the extent of more than 50% of the cost, reimbursement from the Commonwealth is paid in equal annual amounts extending over the number of years the indebtedness incurred is outstanding.

The Commonwealth also provides direct financial support to Boston's capital program under Section 34 of Chapter 90 of the General Laws. Chapter 90 provides for the allocation to cities and towns of a portion of the monies collected through the gasoline tax, special fuel tax, and motor carrier tax. The allocation of Chapter 90 monies is administered by the Commonwealth's Department of Public Works and is based on a fixed formula which considers local miles of roadways (50% weight), population (25% weight), and people employed in the community (25% weight). The population component is changed every decade based on census data; the other two components are re-evaluated annually. Chapter 90 monies are allocated annually and may be used on a range of design, engineering, and construction projects relating to roadways.

The Commonwealth's Transportation Development and Improvement Program, also known as the Transportation Bond

Bill, was enacted in 1983. Unlike prior years' Transportation Bond Bills, this bill authorized and directed the Commonwealth's Department of Public Works to expend a sum not less than \$40 million for projects for construction and reconstruction of town and county ways under Section 34 of Chapter 90 of the General Laws. The \$40 million is available for expenditure until June 30, 1988. Any amounts made available to cities and towns under this bill represent direct grants which do not require the prior expenditure of any funds by the city or town. Boston's portion of this \$40 million is not presently determinable.

The Commonwealth also provides indirect financial support to Boston's capital program. Several previously noted authorities and commissions receive financial support from the Commonwealth, support which facilitates the delivery of service to Boston and other cities and towns. In addition, the Commonwealth owns and, accordingly, repairs and maintains several major streets and bridges which are located in Boston.

The Funding Act of 1982 (the so-called Tregor Bill) enables the City's Public Facilities Commission to dispose of any or all of the off-street parking structures. Sale of the Government Center garage has been recently completed at a price of \$22 million. Proceedings to sell three other garages (Fort Hill Square, St. James Avenue and Kilby Street) are presently in process and estimated aggregate proceeds of approximately \$41 million may be realized within the next six to twelve months. Under the Funding Act of 1982, the funds from these sales are available to cover all debt and interest paid or payable on such property. The excess of sale proceeds over debt and interest on the sold property is credited to the City's general fund for use in paying debt service costs. This excess should be used for

capital projects, thereby helping to restore the City's fixed assets.

The federal government also participates actively in financing Boston's public capital projects. More specifically, the federal government finances up to 90% of eligible highway improvements in Boston, 80% of mass transit capital improvements, and 75% of the costs of selected sewerage treatment facilities. Under the Federal Bridge Replacement and Rehabilitation Program, eligible bridges are generally upgraded or rebuilt with a combination of federal and state monies. Finally, the largest source of federal capital aid to Boston relates to urban renewal and economic development programs. Prior to 1974, most of this aid was provided via federal urban renewal program grants. These grants were replaced by the more flexible federal Community Development Block Grant program. Additional sources of federal development assistance include Urban Development Action Grants and other grants or loans administered by the United States Department of Housing and Urban Development.

Although questions exist about the exact historical magnitude of federal funding for Boston's capital expenditures, federal monies certainly comprise a significant percentage of Boston's public capital investment in:

- o Urban renewal
- o Economic development
- o Water and sewer
- o Highways and streets
- o Mass transit
- o Port development

To recap, during the period 1965-1983, the City of Boston expended in excess of \$1.7 billion on public capital projects. Approximately \$800 million of these expenditures were financed through the City's sale of general obligation

bonds and bond anticipation notes. The amount of direct financial support provided by the Commonwealth and the federal government to Boston's capital program is difficult to quantify accurately. During the period 1965-1983, indications are that approximately \$200 million was provided by the Commonwealth as direct financial support to Boston's capital program. This support primarily related to the construction of public schools and roadways with minor amounts expended in conjunction with urban renewal projects. During the period 1965-1983, in excess of \$700 million was provided by the federal government as direct financial support to Boston's capital program.

The remainder of this section focuses on the condition of Boston's public capital investment with emphasis on streets, bridges, parks and municipal buildings. The condition of infrastructure components administered by relatively autonomous agencies is equally important to the City of Boston but beyond the scope of this chapter, as capital funding is not directly provided by the City. These agencies include the Massachusetts Turnpike Authority, the Massachusetts Port Authority, the Massachusetts Bay Transportation Authority, the Metropolitan District Commission and the Boston Water and Sewer Commission.

Streets

The Boston Public Works Department is responsible for maintaining approximately 780 of the 1,100 miles of streets and highways. The remaining mileage includes highways and streets maintained by the Massachusetts Department of Public Works, the Massachusetts Turnpike Authority and the Metropolitan District Commission, plus several miles of small streets which are not public roads. Unlike bridges

and municipal buildings, streets are not structually evaluated on a periodic basis; rather, priorities are established primarily through visual inspections and by reference to neighborhood development plans, community meetings and infrastructure planning sessions.

The Boston Public Works Department (PWD) contracts out all major reconstruction and resurfacing work and some maintenance work. Reconstruction involves excavating the existing street and portions of the base. Reconstruction typically also involves rebuilding adjacent sidewalks, replacing necessary curbs and performing lighting work. Resurfacing may involve grinding or reshaping the existing street before applying one layer of concrete binder (which levels the roadway) and one layer of asphalt pavement. A quicker, less expensive method of resurfacing involves placing a thin layer of asphalt on the heavily trafficked street center. The cost of reconstruction and resurfacing is generally financed out of capital funds while maintenance costs are financed from the operating budget.

The useful life of a street, sidewalk or lighting system is dependent upon numerous factors and is very difficult to estimate. Useful lives of 25-50 years are both possible and frequently cited. Resurfacing probably has a useful life of 2-10 years depending, in part, on whether a single skim coat or two layers of asphalt are applied. Based on the recent level of capital expenditures administered by PWD, and summarized in Table 3, Boston has clearly been disinvesting in its streets, sidewalks and lighting system. The city, state and federal governments contributed approximately 67%, 8% and 25%, respectively, of these 1978-1983 expenditures.

TABLE 3

CAPITAL EXPENDITURES OF BOSTON
PUBLIC WORKS DEPARTMENT

Type of Expenditure	1978	1979	Fiscal Year ^a		1982	1983
			1980	1981		
			(\$ in 000's)			
Reconstruction	2,565	7,124	8,527	3,873	1,284	3,402
Street construction	--	220	--	--	--	--
Asphalt resurface ^b	574	1,488	1,761	424	--	174
Street repairs ^b	141	150	--	403	180	--
Sidewalk repairs ^b	374	403	614	896	--	--
TOTAL	<u>3,654</u>	<u>9,385</u>	<u>10,902</u>	<u>5,596</u>	<u>1,464</u>	<u>3,576</u>

SOURCE: Status Report on Infrastructure Planning, a publication of the BRA Research Department, with data originally from PWD annual reports and contract reports.

^a It should be noted that substantial additional investment in new public ways and lighting were undertaken by the BRA in the South End, Fenway, and Charlestown. Additional street reconstruction was also carried out in the neighborhood business districts by PWD on behalf of the NDEA.

^b Expenditure figures for reconstruction on public ways, asphalt resurfacing, and street and sidewalk repairs are a record of the contracts completed in each fiscal year.

A list of priority projects, dated December 20, 1983, identifies a backlog costing \$19.9 million. This includes numerous reconstruction projects (\$12.1 million) and skim coating projects (\$5.0 million) plus limited original construction work (\$1.1 million) and sidewalk reconstruction (\$1.7 million). PWD presently has approximately \$3.2 million in appropriated and unencumbered amounts plus approximately \$25 million in authorized and unissued debt.

Bridges

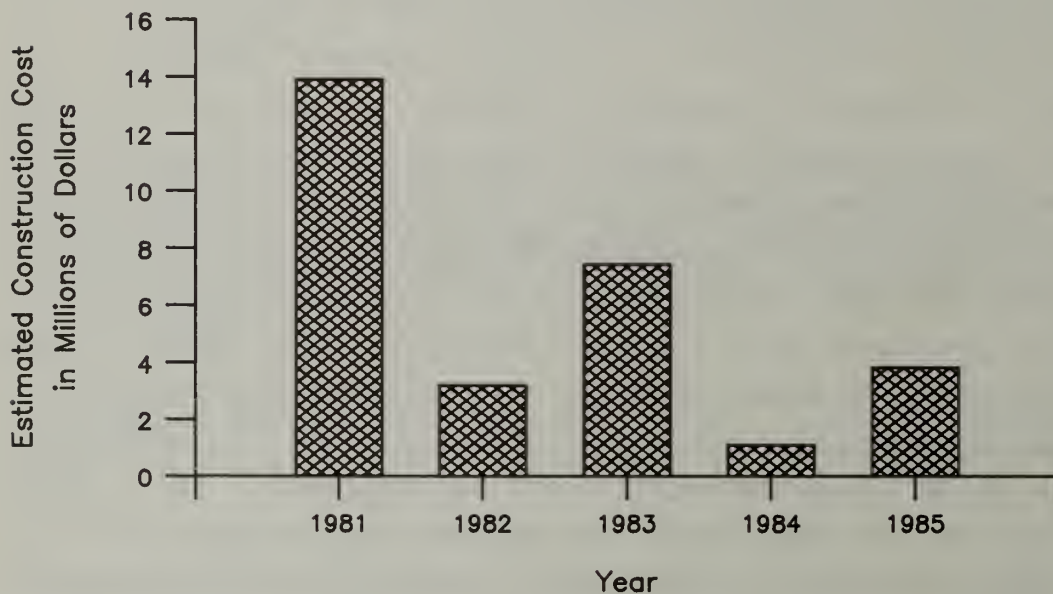
As in many other large cities, responsibility for the upkeep and capital repair of Boston's bridges is divided among the City, the Commonwealth, and several agencies. Based on a review of a Massachusetts Department of Public Works computer printout, Boston appears to have 388 bridges, pedestrian walkways and viaducts. A recent study by the Joint Center for Urban Studies identified 362 Boston bridges and viaducts. The City is responsible for only 45 of these bridges.

Under federal funding eligibility requirements, all bridges must be inspected and rated every two years. The Massachusetts Department of Public Works inspects all bridges, including City-owned bridges, at no cost to the owner. Each bridge is rated according to the standards of the American Association of State Highway and Transportation Officials (AASHTO). The AASHTO rating represents a weighted average of several factors including structural adequacy and safety, serviceability and the bridge's importance to the overall transportation system. In evaluating a bridge's structural adequacy, attention is focused on the condition of the deck, superstructure and substructure. An AASHTO rating of 50 or less means the bridge is eligible for federal aid to replace the structure. An AASHTO rating between 50 and 75 means the bridge is eligible for federal aid to rehabilitate the structure.

Table 4 summarizes the condition of the bridges located in Boston. The poor condition of many Boston bridges which is reflected in this table is exacerbated by a reactive and low level of maintenance. A consultant's detailed review (in 1979) of City-owned bridges also cited

their poor condition and noted severe corrosion and structural deficiencies on several bridges. The consultant's summary report, dated October 1980, is summarized in Display 4. The estimated construction cost for 1981 includes \$11.0 million for the Northern Avenue bridge over Fort Point Channel. The estimated construction cost for 1983 includes \$4.5 million for the Summer Street bridge over Reserved Channel.

Proposed Annual Program of Bridge Repairs



Display 4

Estimated Total Cost = \$29,330,000

TABLE 4

CONDITION OF BRIDGES LOCATED IN BOSTON

<u>Owner</u>	<u>Number of Bridges</u>			<u>AASHTO Rating</u>	
	<u>Total</u>	<u>Recon- structed</u>	<u>Con- structed Pre-1950</u>	<u>Less Than 50</u>	<u>50-75</u>
State-Owned					
Interstate System	97	3	-	4	12
Primary Aid System	24	18	5	2	6
Other	60	12	47	30	16
City-Owned					
Federal Aid System	33	5	25	9	6
Other	12	Reliable data unavailable			
MDC	46	11	18	6	21
MA Turnpike Authority	54	-	-	-	9
Massport	3	2	1	-	2
MBTA	<u>33</u>	Reliable data unavailable			
TOTAL	<u>362</u>				

SOURCE: "Services from Public Capital: The Outlook for Boston's Physical Infrastructure," Joint Center for Urban Studies, October 1983.

The City of Boston has expended relatively insignificant monies on City-owned bridges in recent years. The cost of minor maintenance and repair work is paid by Boston. However, major repair and reconstruction work is presently being deferred pending available state or federal funds. On these major repair and reconstruction projects, Boston frequently pays the design and engineering costs. The Northern Avenue bridge is currently in the design phase with federal construction financing.

Parks

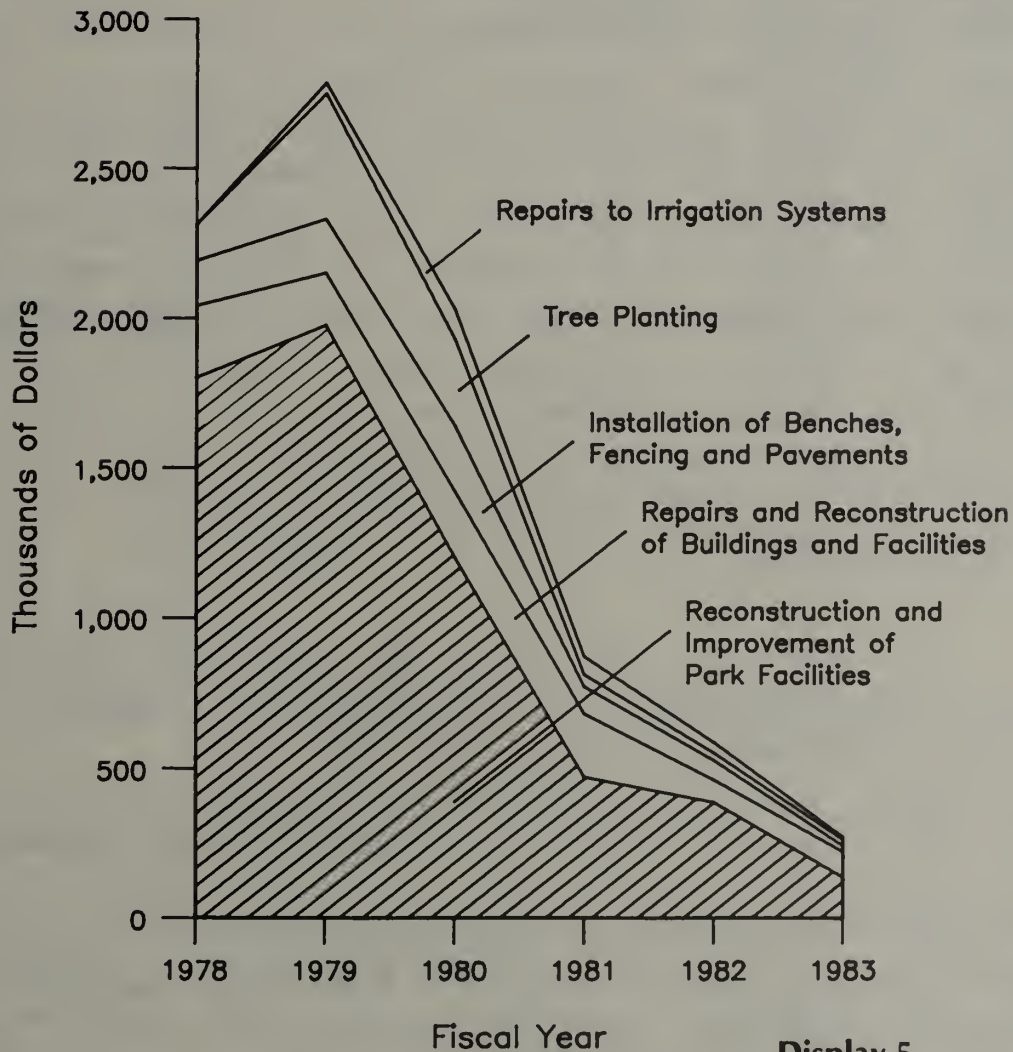
The Parks and Recreation Department is responsible for maintenance of 2,500 acres of the City of Boston-owned

parks. This includes the care and upkeep of 140 parks and playgrounds plus several recreation buildings and centers. As with streets, the condition of parks and recreation facilities is difficult to evaluate accurately in terms of specific criteria. However, a significant decline in capital expenditures by the Parks and Recreation Department after the passage of Proposition 2-1/2 suggests that necessary repairs and improvements have been deferred. A summary of recent capital expenditures administered by the Parks and Recreation Department appears in Display 5. The city and federal governments contributed approximately 80% and 15%, respectively, of these 1978-1983 expenditures, with the balance financed by various trust funds.

The Parks and Recreation Department expends a portion of its operating budget on maintenance and small repairs. The annual amounts expended are relatively modest and approximate \$1 million in contractual services. In addition, the Department has an engineering division staff of approximately 12 persons which is responsible for preparing contract plans and specifications, monitoring in-process contract work and planning for future development.

As noted, in addition to City-funded capital expenditures, the Department utilizes contributions from private partners plus federal and state grants. Major in-process projects are primarily financed by the National Park Service's Urban Parks and Recreation Recovery Program, federal Community Development Block Grants, the Massachusetts Division of Conservation Services, the Parkman Fund and the Land and Water Conservation Fund. Separately, the recently enacted Capital Outlay Program provides considerable monies for work on Boston-area parks, including Franklin Park, portions of the "Emerald Necklace," and Urban Heritage parks.

Capital Expenditures of Boston's Parks and Recreation Department



SOURCE: Status Report on Infrastructure Planning, a publication of the BRA Research Department, with data originally from Parks and Recreation Department contract files.

* In addition to BPRD expenditures, from 1978-1983, the BRA spent over \$3.1 million on park construction and NDEA spent over \$200,000 on parks and recreation improvements.

The Parks and Recreation Department recently prepared a projected five-year capital program costing \$25.9 million. As presented, during each of the next five years, the Department would expend \$5.0-\$5.3 million. The largest proposed individual capital projects and their respective five-year expenditures relate to Franklin Park (\$3.3 million), the Boston Common and Public Garden (\$1.5 million), the Back Bay Fens (\$1.4 million), and Franklin Field (\$1.3 million). An additional \$2.2 million is projected for city-wide tree planting and maintenance in parks and squares. The Parks and Recreation Department presently has approximately \$3.5 million in authorized and unissued debt, all of which relates to loan orders dated before 1980.

Municipal Buildings

The City of Boston has 408 municipal buildings which are currently active: 282 non-school buildings and 126 school buildings.

The physical condition of these municipal buildings varies considerably due, in part, to each structure's age and upkeep. An unpublished study prepared for the Commonwealth of Massachusetts evaluated the physical condition of City-owned buildings (excluding schools) in 1972. This evaluation is admittedly partially outdated but a more recent comprehensive study is unavailable. A summary of findings from this 1972 review appears below.

TABLE 5

PHYSICAL CONDITION OF CITY-OWNED BUILDINGS^a

<u>Facilities</u>	<u>Number of Facilities</u>	<u>Average Age</u> (in years)	<u>Average^b General Condition</u>
Parks and Recreation Dept.	61	52.7	37.6
Fire Department	46	46.3	39.1
Public Works Department	28	59.6	36.4
Long Island Hospital	24	44.7	35.0
Deer Island Prison ^c	20	61.4	35.2
Police Department	19	54.9	40.9
Mattapan Hospital	17	46.1	37.6
Miscellaneous ^d	<u>19</u>	<u>41.9</u>	<u>37.6</u>
TOTAL	<u>234</u>	<u>51.0</u>	<u>37.4</u>

SOURCE: Capital Requirements of Boston Infrastructure and Proposed Financing by the Public Sector: Prospective Five-Year Period, an unpublished study, December 26, 1978.

^a Excludes school buildings.

^b Ratings: 30 = functional, major repairs needed
40 = functional, minor repairs needed
50 = excellent condition

^c Excludes carpenter shop, private homes and storage area.

^d Includes City Hall, et al.

A United Facilities Plan (UFP), released in 1979, evaluated in detail the physical condition of Boston's public schools. This Plan was prepared in response to a U.S. District Court order requiring the development of a schedule for school closings, construction, renovations, repairs, refurbishing and replacement for the years 1977-1986. A summary of suggested costs relating to the upgrading of school facilities, contained within the UFP and summarized below, identified projects costing \$143 million. Boston's estimated share of these costs approximates \$49 million. The \$40 million provided for high school projects may be low since an analysis of ten high schools, prepared as part of

the UFP, identified \$59.6 million in minimum capital improvements plus an additional \$147.6 million in costs relating to the complete renovation of all ten high schools. These cost estimates are in 1980 dollars and, accordingly, should be increased by approximately 30-40% to adjust the amounts to 1984 dollars.

TABLE 6

COSTS TO UPGRADE SCHOOL FACILITIES (UFP)
(\$ in 000's)

Priority A - highest	\$33,420
Priority B	10,891
Priority C	48,933
Recovery of High Schools	40,000*
Necessary Improvements to Other Schools	<u>10,000</u>
TOTAL	<u>\$143,244</u>
Boston's Est. Share	<u>\$ 49,000</u>

An updated evaluation of the condition of Boston's municipal buildings is presently underway. The Boston Infrastructure Committee's Planning and Policy Subcommittee, formed in February 1983, and acting in conjunction with BRA personnel, has distributed a survey to approximately 18 public agencies and private companies actively involved in planning and developing Boston's infrastructure. The survey was mailed in June and requested various information including profiles of actual 1978-1982 expenditures and planned expenditures over a 1-, 5-, 10- and 17-year horizon. Many survey replies have been received and clarified through follow-up meetings. Most replies project capital expenditures over a time frame of three to five years. A summary of survey results is anticipated within the next few months.

Given the Infrastructure Committee's in-process and substantially completed survey, one would simply not expect

the following to occur in an efficient capital budgeting system. Under a fiscal year 1984 contract not to exceed \$160,000, the firm of Wallace, Floyd, Associates, Inc., is preparing a five-year capital improvements program for the Public Facilities Department. In preparing this program, Wallace, Floyd is performing several tasks including an inventory of municipal property and a preliminary field survey of selected buildings. The program will ultimately reflect interviews with selected department personnel, detailed building surveys and applicable financial constraints. The proposed capital improvement program is expected to be available in the fourth quarter of fiscal 1984. Two additional points should be noted. First, the proposed capital improvement program will need to be expanded to incorporate all municipal buildings. Second, the City may need to accelerate the development of this program to be eligible for state or federal aid on several capital projects.

The preliminary field survey of selected buildings has been recently completed and is documented in an interim report dated December 20, 1983. This preliminary survey is based upon an exterior observation of selected buildings plus an interior observation of a portion of these buildings. Numerous buildings are rated as being in fair or poor condition, with many structures evidencing graffiti, broken windows and an absence of storm windows. Several older buildings are described as handsome, elegant and structurally sound, but also neglected and rundown in appearance. Selected buildings appear to require significant repairs. One building in this condition is the Engine Company 32, Ladder 9 Fire Station. Constructed in 1972, it is described as having "many cracks in the walls most likely resulting from immediately adjacent railroad use/built-in heating and cooling fails/no screens or storm windows".

In evaluating the capital needs of Boston's municipal buildings, the following three additional points should be considered:

- o The City is under court obligation to significantly improve or reconstruct the Charles Street Jail at a preliminary estimated cost of \$40 million.
- o The City is under court obligation to significantly improve conditions at the Deer Island House of Correction at a cost of several million dollars.
- o The cost of improving the accessibility for disabled persons of Boston's municipal facilities was estimated at \$11.2 million. This estimate was prepared by the Public Facilities Department and assumed improvements to 114 buildings during fiscal 1982-1984. Many of these projects remain unstarted and the related costs continue to escalate with the passage of time.

A shortage of reliable data prevents a meaningful analysis of recent capital expenditure levels on Boston's municipal buildings. An analysis of capital expenditures of the Public Facilities Department (PFD), prepared by the BRA's research department, identified the amounts listed on the table below. As described in Note 1 of the table, "the expenditure figures ... should be viewed only as preliminary estimates". During the five years 1979-1983, PFD capital expenditures are estimated at \$69.3 million. The city, state and federal governments contributed approximately 34%, 53% and 8%, respectively, of these 1979-1983 expenditures with the balance financed by various trust funds. Accurate information regarding PFD annual capital expenditures is not readily available from that department.

TABLE 7

CAPITAL EXPENDITURES OF THE BOSTON
PUBLIC FACILITIES DEPARTMENT^a

<u>Type of Expenditure</u> ^b	Fiscal Year ^a				
	<u>1979</u>	<u>1980</u>	<u>1981</u> (in 000's)	<u>1982</u>	<u>1983</u>
School Facilities	\$25,384	\$13,983	\$ 35	\$ --	\$2,133
Health and Hospitals	2,596	1,298	1,254	188	5,054
County Courthouse, Jail and Prison	872	228	234	147	897
Parks and Recreation	617	1,413	2,239	115	677
Police Department Facilities	231	2,109	718	71	--
Fire Department Facilities	245	1,651	167	100	--
Library Facilities	141	948	110	--	--
General Municipal Facil- ities & Miscellaneous	<u>454</u>	<u>480</u>	<u>528</u>	<u>805</u>	<u>1,151</u>
TOTAL	<u>\$30,540</u>	<u>\$22,110</u>	<u>\$5,285</u>	<u>\$1,426</u>	<u>\$9,912</u>

SOURCE: Status Report on Infrastructure Planning, a publication of the BRA Research Department, with data originally from PWD annual reports and contract reports.

^a With the exception of the Auditing Department's Financial Statements, which provide data on new school and hospital construction for 1979 and 1980, the expenditure figures were drawn from advertisements or unverified estimates of completed projected costs, consequently the expenditure figures in this table should be viewed only as preliminary estimations.

^b Expenditures in each category include new construction, renovation, repairs and major new equipment.

The fiscal 1984 operating budget provides the Public Facilities Department with \$2,790,000 for repairs to buildings and structures. Substantially all of these monies are presently encumbered or committed to projects out for advertisement. The operating budget also provides PFD with monies to staff 19 planning and development positions plus

nine alterations and repairs positions. PFD resources are supplemented, as required, with technical consulting expertise costing in excess of \$500,000.

PFD is also involved in various capital projects which are primarily funded through federal grants and is currently applying for \$82.8 million of additional grants, primarily related to rehabilitation work on Boston Latin School and construction of a new Latin Academy (\$35 million) plus previously noted work at the Charles Street Jail (\$25 million) and the Deer Island House of Correction (\$20 million).

The Public Facilities Department currently has 51 active construction contracts. The current value of these contracts totals \$14.4 million, an increase of approximately \$170,200 (1.2%) from original contract amounts. This \$170,200 represents the net effect of seven change orders.

The listing of Authorized and Unissued Debt as of November 30, 1983 includes approximately \$110 million relating to PFD. A summary of major authorized and unissued loan orders appears below. Attempts to evaluate historical loan order activity, relative to originally stated projects and purposes, proved very difficult. This difficulty reflects the practice of often establishing one loan order for multiple capital projects and occasionally allocating the cost of a single project to two or more accounts. Overall, the relative age of several loan orders, coupled with a PFD-prepared list of active loan orders which total only \$43.9 million, suggest that several older authorized and unissued loan order amounts should possibly be rescinded.

TABLE 8

SUMMARY OF AUTHORIZED AND UNISSUED DEBT
AS OF NOVEMBER 30, 1983

<u>General Purpose</u>	<u>Date of Order</u>	Amount (in 000's)	
		<u>Originally Authorized</u>	<u>Authorized & Unissued</u>
Remodeling & Extraordinary Repairs			
- various depts.	Pre-1980	\$ 15,480	\$ 7,505
- penal dept.	4-8-83	2,000	2,000
- school dept.	5-31-83	4,000	2,000
- library dept.	11-22-83	15,000	15,000 ^a
- various depts.	11-22-83	10,000	10,000 ^b
School Project	Pre-1974	238,400	9,040
Loan Act of 1948	11-14-83	35,000	35,000 ^c
Charles Street Jail	10-1-78	15,400	14,000
Public Buildings			
- various depts.	various	<u>39,700</u>	<u>15,810</u>
TOTAL		<u>\$374,980</u>	<u>\$110,355</u>

^a Includes approximately \$12.5 million for the Main Library.

^b Includes \$1.8 million for a fire alarm system at Boston City Hospital and \$1.8 million for repairs and improvements at the School Department's Central Kitchen Facility.

^c Relates to the Boston Latin School and Latin Academy.

Urban Renewal and Economic Development

Capital expenditures in the areas of urban renewal and economic development are primarily handled by three agencies: the Economic Development and Industrial Corporation of Boston (EDIC), the Neighborhood Development and Employment Agency (NDEA), and the Boston Redevelopment Authority. The capital requirements of each of these agencies are briefly discussed below.

During the six years 1978-1983, EDIC directly administered capital projects costing \$11.9 million. These projects related to the Boston Marine Industrial Park (\$5.9 million), the Boston Army Base (\$4.2 million, all in 1983), and the Crosstown Industrial Park (\$1.8 million). The City financed approximately one-third of these capital projects or an average of \$660,000 per year. EDIC's response to the Infrastructure Committee Survey identified capital projects costing slightly in excess of \$20 million over the next five years. The sources of financing for these planned projects are currently unknown. If Boston continues to finance approximately one-third of EDIC's capital expenditures, City funding will approximate \$1.3 million per year.

During the six years 1978-1983, NDEA directly administered capital projects costing \$5.3 million. These projects were fully financed by the federal government, and should continue to be.

During the six years 1978-1983, the Boston Redevelopment Authority (BRA) directly administered capital projects costing \$44.9 million. Significant amounts were expended in the South End (\$21.6 million), Charlestown Navy Yard (\$8.1 million), Fenway (\$4.3 million), and Charlestown (\$3.9 million). The city, state and federal governments financed approximately 11%, 6%, and 81%, respectively, with the remaining 2% financed by the Boston Water and Sewer Commission.

The BRA recently completed a forecast of City-funded capital expenditures. These projected expenditures represent an annual average of \$11.2 million, a significant increase from the approximately \$825,000 per year expended by the City on behalf of BRA projects.

TABLE 9

PROJECTED CITY-FUNDED CAPITAL
EXPENDITURES OF THE BRA

<u>Project Area</u>	<u>Fiscal Year</u>		
	<u>1984</u> Jan.-June	<u>1985</u>	<u>1986</u>
	(\$ in 000's)		
Charlestown Urban Renewal Area	\$ 755	\$ 1,440	\$1,560
Charlestown Navy Yard	1,026	3,060	240
Chinatown	216	--	--
Columbia Point	--	1,200	1,200
Lafayette Place	3,348	1,534	--
North Station Urban Renewal Area	1,512	960	360
Park Plaza Urban Renewal Area	--	630	480
South End Urban Renewal Area	540	1,380	720
South Station Urban Renewal Area	1,080	1,560	--
Waterfront Urban Renewal Area	<u>119</u>	<u>--</u>	<u>--</u>
TOTAL	<u>\$8,596</u>	<u>\$11,764</u>	<u>\$4,560</u>

SUMMARY

The capital budgeting process, as described in this chapter, is not functioning particularly well. A comprehensive multi-year capital improvement program has not been prepared since approximately 1975. The capital planning process is divided among a multitude of government agencies including the City's Departments of Public Facilities, Public Works, and Parks and Recreation, plus the Boston Redevelopment Authority. Each agency has unique procedures for identifying and prioritizing capital needs, coordinating alternative funding sources and monitoring contract compliance. These procedures are usually informal and not documented in writing. Many agencies have adopted unusually short planning horizons. Finally, and perhaps most importantly, the condition of Boston's infrastructure and municipal buildings is deteriorating. Continued underfunding of both key maintenance and minor repair items has resulted in unnecessarily costly later repairs.

A relative absence of reliable information currently precludes the preparation of a highly refined capital improvements program. The summary of projected fiscal 1984-1986 City-funded capital expenditures which appears on the following page reflects numerous underlying "best guesses". Accordingly, this summary should be reevaluated as better information becomes available. More specifically, the following key variables should be closely monitored as each variable is individually very significant to the City's short-term capital improvements program:

- o Timing of Boston Latin School and Latin Academy construction
- o Timing, and available non-City financing, regarding the Charles Street Jail and Deer Island House of Correction
- o Continued availability of state and federal construction financing

Overall, the City's ability to afford annual capital expenditures of \$65-\$70 million must be evaluated. While recognizing that the deferral of multi-year capital planning and preventive maintenance is relatively easy in the short-run, its long-run consequences are significant and costly. Accordingly, before rejecting annual capital expenditures of \$65-\$70 million as unacceptably high, relative to historical levels, attention should be focused on potential alternative financing sources and cost savings which may be achievable elsewhere.

TABLE 10

SUMMARY OF PROJECTED CITY-FUNDED
CAPITAL EXPENDITURES
(dollars in millions)

<u>Description</u>	<u>Comments</u>	<u>Fiscal Year</u>		
		<u>1984</u> Jan.-June	<u>1985</u>	<u>1986</u>
Streets Sidewalks Lighting	Increased emphasis on reconstruction & sidewalks; assumes state & federal govts continue to finance 33% of capital costs	\$4	\$9	\$10
Bridges	Increased preventive maintenance & minor repair work; assumes state & federal govts continue to finance 100% of major construction costs	1	4	4
Parks	Applies historical City-funding percentage (80%) to amounts detailed in the recently prepared capital program	2	4	4
Buildings -Libraries	Assumes major work at the Main Library begins in Fall 1984	1	6	6
-Latin Schools	Assumes the beginning of construction work in Fall 1984 & a 36-month schedule	1	8	12
-Repair/ renov. at various departments	Increased emphasis on early corrective work; assumes approximately 50% financing by the City	3	8	9
-Charles St. Jail	A very imprecise estimate	1	10	10
BRA	As detailed earlier in this chapter, except that the BRA's	9	12	7
EDIC	FY 86 amount includes \$2.5 million for presently undetermined projects.	1	2	2
Equipment	Major items only.	<u>2</u>	<u>4</u>	<u>4</u>
TOTAL		<u>\$25</u>	<u>\$67</u>	<u>\$68</u>

RECOMMENDATIONS

The recommendations which appear below attempt to create an environment conducive to effective capital budgeting. This environment should facilitate the development of a multi-year capital budget and heighten management accountability within the budgeting process. These recommendations are offered as constructive management suggestions.

1. Multi-year capital budgets should be prepared annually and updated quarterly.
2. The planning horizon for the capital budget should be five years with projected Year 1 expenditures detailed by month.
3. The cash flow relating to planned Year 1 expenditures should be detailed by month.
4. The planned total cost of each capital expenditure should be projected with the city, state and federal government components also indicated.
5. The estimated impact, if any, of each planned capital expenditure on the operating budget should be quantified and included with the budget document.
6. The capital budget should, if feasible, be prepared on a calendar year basis in order to minimize timing variances.
7. Key underlying capital budget assumptions should be documented and included with the budget document.
8. The multi-year capital budget should be formally "issued" on an annual basis in order to increase accountability and understanding.
9. A comprehensive capital budgeting manual should be prepared in order to formally document acceptable policies and procedures.

10. Standard capital budget forms should be utilized by all departments.
11. Minimum standards for data collection, including the level and format for accurately accumulating capital expenditure costs, should be established and followed by all departments.
12. Applicable departments should be strongly encouraged to compile accurate historical capital expenditure and repair/maintenance cost data subject to specified guidelines.
13. Consideration should be given to shifting all minor repair and maintenance costs to the operating budget.
14. Capital project cost data, both historically and prospectively, should focus on monies expended during designated time periods versus less meaningful data on contracts advertised, contracts awarded or contracts completed.
15. A chart of accounts should be developed and implemented which facilitates multi-tiered analyses of capital expenditures.
16. The existing, but generally unused, Capital Improvements Program Management Information System (CIPMIS) should be revised to reflect recent and planned changes in accounting systems plus any design limitations which potentially reduce the system's interdepartmental usefulness.
17. A CIPMIS User Manual should be developed to assist department personnel in controlling capital projects.
18. A designated individual should train selected departmental employees in the use of the CIPMIS and should be available to answer ongoing user questions.
19. The Collector-Treasurer and a designated individual responsible for capital budgeting should review all loan orders before submission to the City Council.

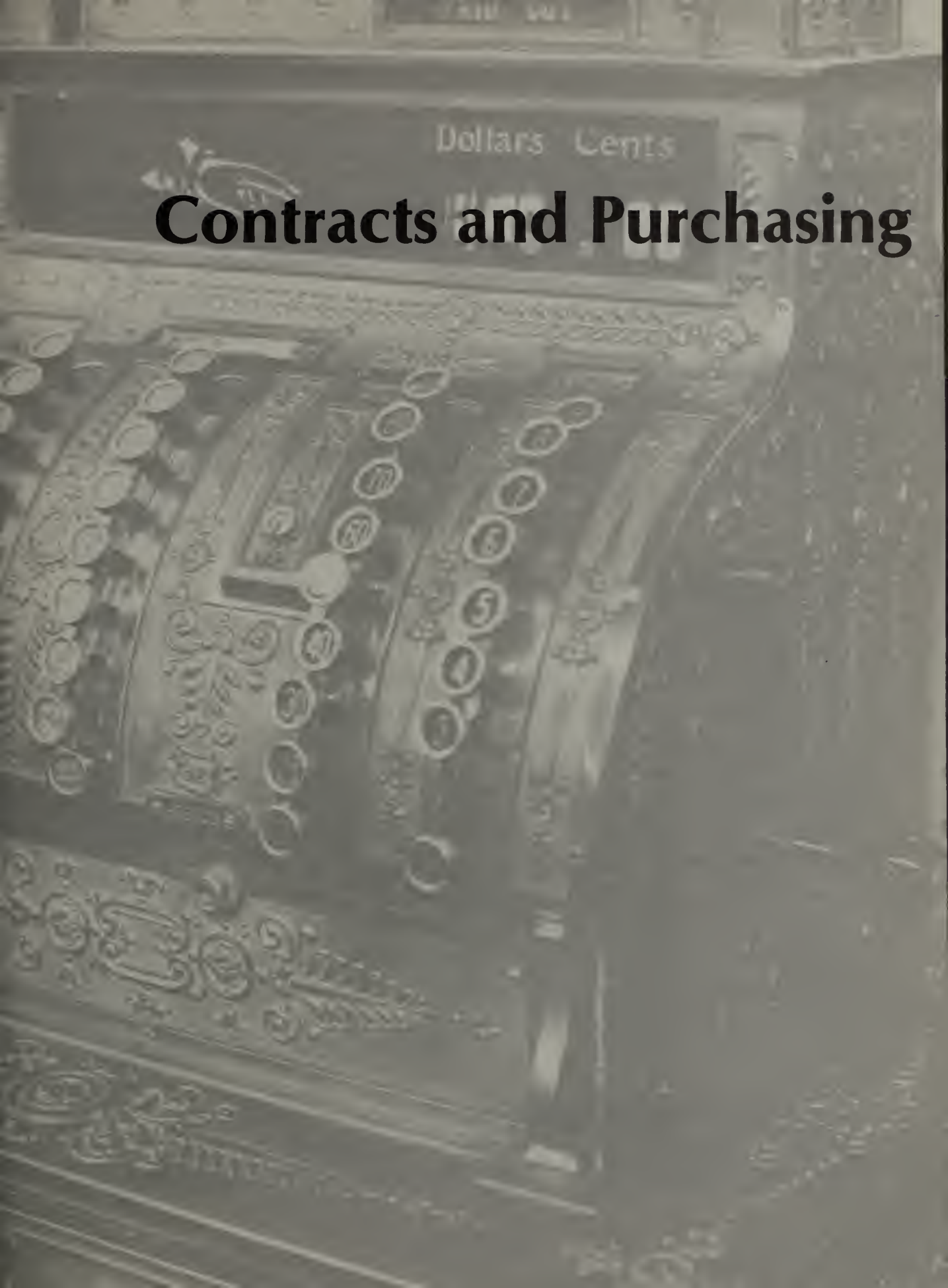
20. The Collector-Treasurer and a designated individual responsible for capital budgeting should review the authorized and unissued debt and prepare a list of recommended recisions or reallocations for the approval of the Mayor and the City Council.
21. A tracking mechanism should be developed to facilitate the accurate matching of loan orders, bond proceeds, and capital expenditures by specific project and general account activity.
22. A designated individual responsible for capital budgeting should review all advertisements relating to capital projects before publication in the City Record in order to prevent the award of unauthorized contracts.
23. The Auditor should continue to establish capital accounts only after receipt of a letter in which the Collector-Treasurer expresses an intention to issue debt as authorized by loan orders.
24. A designated individual responsible for capital budgeting should continually monitor the historical and anticipated future impact of non-City funding sources on Boston's capital projects and should ensure the City's interest in pending important legislation (e.g., the federal Public Capital Investment Act) is appropriately noted.
25. Contract compliance with departmental procedures should be closely reviewed with emphasis on ensuring the existence of adequate documented quality control mechanisms.
26. Existing procedures which effectively result in each department resolving its own construction contract disputes without the benefit of input from Corporation Counsel should be reevaluated and revised, as applicable.

27. A designated individual should review all departmental leases pertaining to office space in order to ensure that the lease terms are acceptable and that alternative, City-owned office space is not available.
28. The payment cycle to contractors should be significantly reduced in order to comply with an existing law (Section 39k of Chapter 30 of the General Laws) which provides for the payment by the City of interest to contractors if periodic pay requisitions are not paid within 15 days.
29. The Collector-Treasurer and the Commissioner of the Public Works Department should prepare an updated evaluation of the financial benefit to the City of purchasing that portion of Boston's street lighting system which is presently owned by Boston Edison.
30. The existing practice of matching street opening deposits, received from utilities, with subsequent repair costs should be revised with emphasis on the following:
 - Shifting the burden for permanent street opening repairs to utilities
 - Shifting the Public Works Department's primary role from repair-oriented to inspectional
 - Revising the permit fee structure
 - Reclassifying a high percentage of the street opening deposit account to revenue in recognition of the age of many deposits, the actual practice of repairing major street sections (versus only street openings) and the costly manual effort required to inefficiently match deposits and repair costs.
31. The fragmented capital planning, budgeting and development process should be reviewed and streamlined with emphasis on the elimination of apparently inefficient and overlapping functions and interagency committees.

32. Pending a redefinition of the capital planning, budgeting and development process, key vacancies on the Public Facilities Commission and the Economic Development and Industrial Corporation's Board of Directors should be filled.
33. Responsibility for many of the preceding recommendations should be assigned to an Office of Capital Planning within the Mayor's Office in order to (i) signal the importance of capital budgeting to the new administration, (ii) increase departmental accountability, (iii) improve interdepartmental cooperation, (iv) facilitate the prioritizing of all capital projects within the City, and (v) integrate the capital budgeting process, the operating budget process and the formulation of applicable policies.
34. Private sector experienced personnel should be utilized, where feasible, to staff oversight commissions and City-wide capital budgeting committees.

Dollars Cents

Contracts and Purchasing



AN OVERVIEW

As of January 2, 1984, the City of Boston is committed to the expenditure of almost half a billion dollars for ongoing contracts to which it is a party. The patchwork quilt of funding sources and contracting authorities is so complex and ill-documented that little can be said with total confidence as to where this money comes from, where it goes or how it makes the trip. Some useful statistics are available to provide an overview of Boston's contracting situation, however, and they suggest that to a great extent the City awards its contracts without advertising, or on a "multi-vendor" basis that provides few of the procedural safeguards afforded by the formal, open, competitive-bid process.

The City's contracts in one way or another touch the lives of all Boston residents. Schools, playgrounds, fire houses, bridges, roads, sidewalks, police stations, jails and parks are constructed with materials purchased under contract, and often built by workers employed by contractors. Boston contracts with locksmiths, plumbers, electricians, trash collectors, lawyers, architects and accountants. Consultants work under contract to advise City officials on how to insulate municipal buildings, computerize data and screen applicants for City jobs. Contractors test soil samples, cater meals, assess property values and launder clothes for the City. They provide uniforms, computers, chain link fences, parking meters, paint, paper clips, fire engines and furniture. A partial list of City departments and agencies that make contracts is presented in the table attached as Appendix 1.

Funding for Boston's contracts comes from a variety of sources: city revenues, federal loans and grants, state monies, trust funds and bond issues. Tracing the path of all

of this money from origin to expenditure is an almost impossible task. The City Auditor's office had to have a new computer program prepared in order to determine the total amount of money available to the City from all sources, since even that information was not readily available. Indeed, even with that special computer run, the City Auditor's office could not, in the time allowed, distinguish federal from state money.

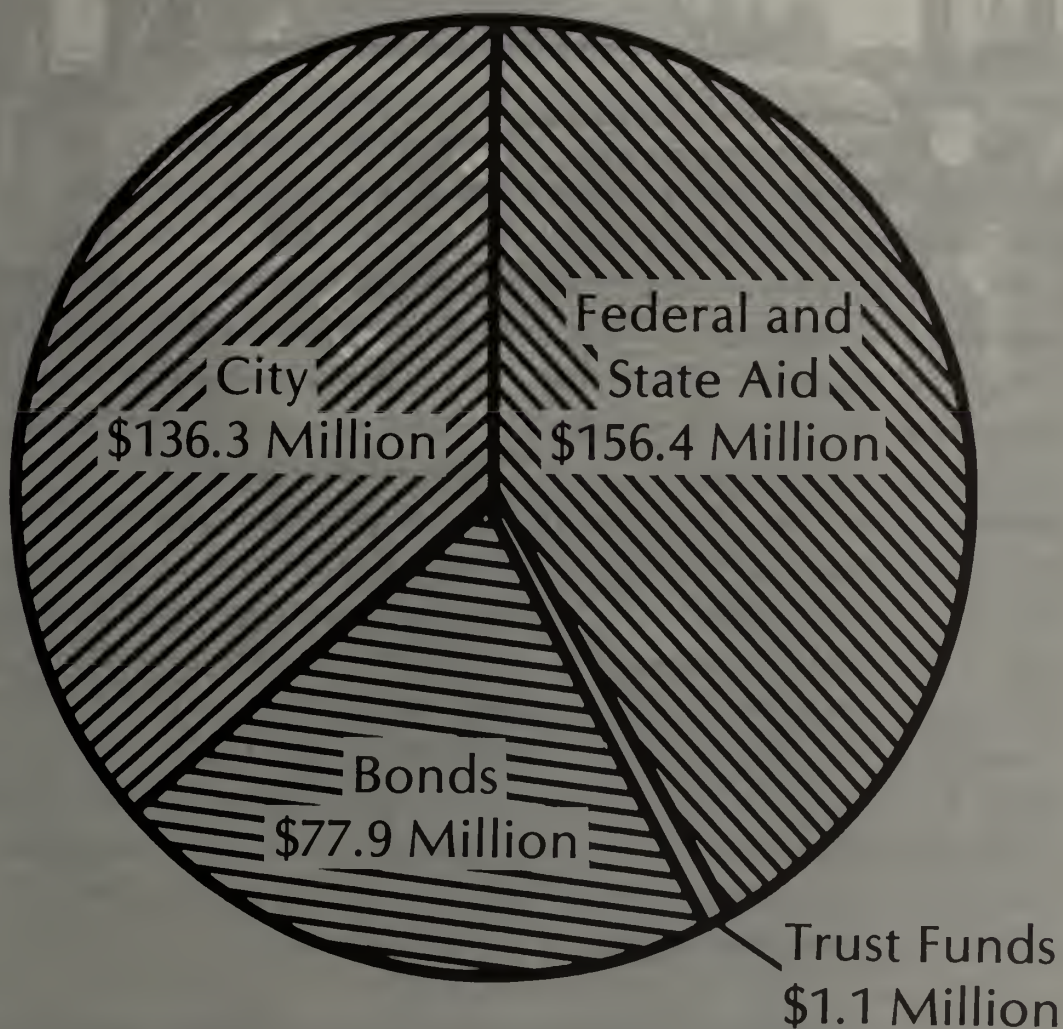
The results of that computer analysis are displayed in the table attached as Appendix 2. As Appendix 2 demonstrates, the City of Boston is currently involved in ongoing contracts the dollar volume of which is \$497,772,442.98. Indeed, this total probably understates the extent of City contracting, since it omits "memo orders," which are encumbrances of funds made for a variety of purposes. The computer analysis could not distinguish between contractual and noncontractual memo orders. According to an official in the City Auditor's office, memo orders for contracts amount to \$25,000 to \$50,000 for each of several departments.

Of the \$497,772,442.98 in ongoing City contracts, \$371,635,110.26 is chargeable against current revenues. In FY 1984, City revenues account for about 37% of the source money for contracts executed before January 3, 1984; federal and state funds exceed that figure, totalling around 42%. Bonds amount to approximately 21% of Boston's contract funding, and trust funds less than 1%. For a clearer understanding of the sources of Boston's contract funding, see Display 1 on page VIII-3.

Appendix 2 also illustrates the unreliability of the original appropriation as an indicator of the amount which will eventually be spent. For instance, as of January 3,

Distribution of 1984 Funding For Boston's Contracts

Total Funding = \$497.7 Million



1984, the dollar volume of executed contracts funded by trust revenues had already exceeded the "Original Amount" established for the entire fiscal year, which was then only half over. Similarly, the current appropriation ("Current Amount" plus "Balance") for City-funded contracts exceeded by 27% the "Original Amount." These apparent increases in appropriation demonstrate that the original City budget cannot provide more than an extremely rough idea of the contents of the final budget.

As will be more fully explained in succeeding sections of this Chapter, City contracts are awarded in any of three ways. Some are advertised and awarded to the lowest responsible bidder. Others are awarded without formal advertisement. And still others are repetitive services contracts, which can involve either a single vendor or two or more vendors (a "multi-vendor contract"), such as a contract enabling an agency to obtain plumbing services from certain plumbers as needed. The award process for multi-vendor contracts bears an appearance of fairness and openness that masks the reality of arbitrary discretion. While virtually any private contractor can, by merely responding to an advertisement, get his name on a contracting agency's list of approved vendors of a particular repetitive service, the agency may thereafter favor a handful of vendors on that list. In farming out particular jobs under a multi-vendor contract, the contracting agency is obliged to obtain bids from just three vendors on its list -- and telephone bids at that. Disfavored vendors may remain on the list indefinitely, without ever receiving an invitation to bid, and there is little incentive and often no procedure for reviewing the taking of informal bids.

Definitive figures on what percentage of Boston's contracts are advertised, unadvertised and repetitive services are not available. The City Auditor's office

conducted a computer analysis to break down the dollar volume of City contracts according to the process used in awarding them. That analysis will not be discussed at length here because it only distinguishes between advertised and unadvertised contracts and does not contain a separate category for repetitive services contracts, which may be advertised or may not. Repetitive services contracts appear generally to be counted in the computer report as advertised. Even with this classification of repetitive services contracts, the computer printout still concludes that unadvertised contracts exceed advertised contracts in both number and dollar volume.

Statistics have been compiled on the relative number and dollar volume of City-funded contracts that are advertised, unadvertised and for repetitive services, based on the City's Encumbrance Open Order Listing ("EOOL"). The EOOL lists all contracts for which the City Auditor had "encumbered" funds by certifying that money was available as of December 16, 1983. Unfortunately, the repetitive services contracts shown on the list include some single-vendor contracts, some of which are advertised and some of which are not. A further qualification is that time constraints required the exclusion of Purchase and Service Orders, leases, all contracts funded by sources other than City revenues, and contracts executed before FY 1984.

Of the 1446 contracts surveyed, 556 are shown on the EOOL as unadvertised -- a full 39%. Repetitive services contracts account for 468 -- 32%. Fifty-one contracts (3%) are not identified as to award process. The total number of advertised contracts is 371, just 26% of the whole. In sum, only about a quarter of Boston's City-funded contracts go through the formal process of advertising and open, competitive bidding. These figures are presented in Display 2 on page VIII-7.

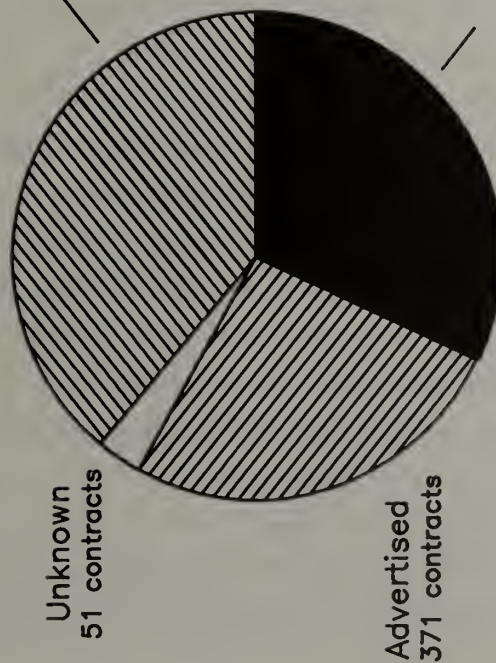
Even more significant than the gross number of contracts awarded without advertising is the dollar volume of those contracts. Unadvertised contracts account for \$37,691,385.58 in contractual spending -- 53% of the dollar value of the contracts funded by City revenues. Repetitive services contracts and those contracts which were not identified as to award process each amount to about 6% of the sum, totalling \$4,110,909.23 and \$4,234,510.53 respectively. Thus, only 35% of the contract money goes to advertised contracts -- a total of \$24,737,508.82. These figures are presented in Display 2 on page VIII-7.

Although extrapolation from these figures may present some problems, the above analysis suggests that more than half of the nearly \$500 million in outstanding City contracts may well have been awarded without formal advertising and open bidding. It also suggests that almost a third of the total number of contracts may have been made through the loosely-regulated multi-vendor process.

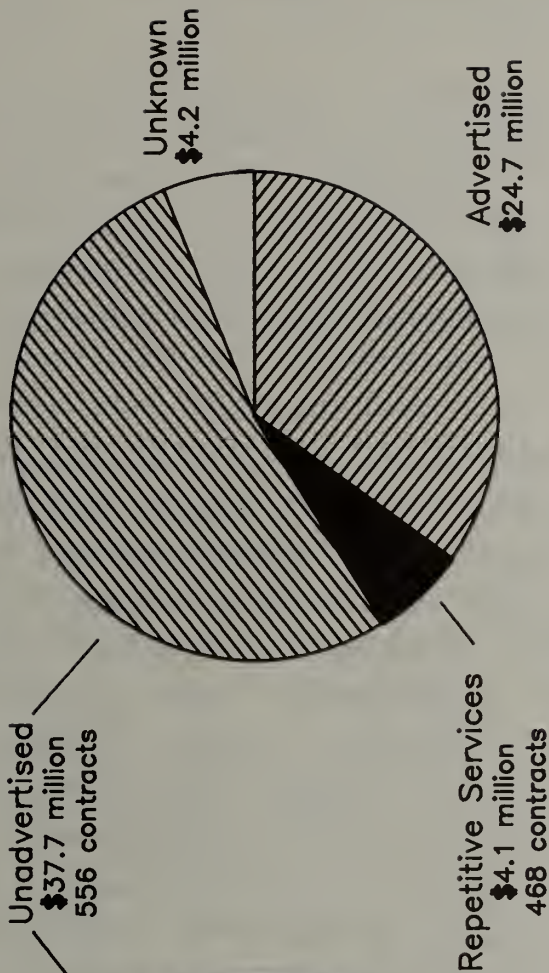
In sum, Boston's contracts are awarded and monitored with an informality hardly befitting the enormous amount of money at stake. Although the City Auditor's office possesses much information on the subject, no central record-keeping system exists to answer some of the simplest questions about contract funding, such as exactly how much federal money is used to pay for the City's contracts and what agencies benefit. The advertised, open bidding procedures necessary to keep public contracting honest and efficient are applied to a very small minority of the total number of City contracts.

Distribution of City—Funded Contracts by Method of Selecting Private Contractors and Vendors

By Number of Contracts



By Dollar Volume



Display 2

PURPOSE AND SCOPE OF STUDY

As detailed above, the City of Boston is currently a party to contracts totalling almost half a billion dollars. The City's contracts and contractual and purchasing procedures were analyzed in some detail in an effort to determine whether the City's substantial expenditures are resulting in maximum value and services to the City and its residents.

This study was not designed to detect wrongdoing, and this Chapter does not assert that the system is corrupt. The study has however discovered and the Chapter describes, an inefficient, bureaucratic system that is susceptible to abuse. The problems identified are so serious that incremental adjustments and piecemeal reform may be ineffective. Therefore, while the specific recommendations advanced in this Chapter should be adopted as valuable interim measures, serious consideration should be given to a fundamental restructuring and system-wide reorganization of the contracting procedures for all the agencies of the City of Boston. Such change could require many months, if not years, to achieve.

The goal sought by the recommendations in this Chapter is a contracting process for the City that, while operating fairly, openly and honestly, obtains needed services, goods or construction of the highest quality at the lowest appropriate cost for the City, from as widespread a group of Boston private contractors as possible. Contracting procedures were examined to identify those that did not serve this goal or were susceptible to abuse or inefficiency. Individual contracts were looked at for the light they shed on the effectiveness of the present procedures, but with the limited time and without access to subpoena or records of the

private contractors, the investigation was not designed to detect criminal misconduct.

The investigation consisted of three distinct phases. The first phase of the investigation involved collecting the various legislative acts, municipal ordinances and contract manuals governing City contracts and contract procedures, and general background information and numerous documents from various sources throughout the City. Information and documents were obtained from a wide range of City offices, including the City Audit, or Budget Division, and Law Departments, as well as the Boston Municipal Research Bureau and the Boston Finance Commission. The first phase culminated in detailed analyses of the various statutes, ordinances and contract manuals and the general documentation previously gathered with a view to determining the adequacy of these procedures and controls. Personnel in all City departments cooperated generously with this effort, and the series of briefings by City officials were very helpful.

All systems and controls, no matter how well designed, must be followed and properly implemented to achieve their intended purpose. Therefore, in the second phase of the investigation, additional information and documentation were gathered and analyzed, including approval forms, bid forms, Award Letters and contract documentation, in order to identify formal or informal contracting practices and procedures, with particular focus on comparing the written procedures against performance in actual practice. Separate attention was devoted to those contracts that are advertised and competitively awarded through public advertising, multi-vendor or repetitive services contracts and unadvertised contracts, as each of those types of contracts is subject to different controls and procedures. Moreover, each of them poses unique problems and concerns that must be addressed individually in order to design and implement

adequate controls and procedures to ensure maximum return on the City's contractual expenditures. The second phase also included extensive interviews with various City representatives.

While an attempt was made in the third phase of the investigation to conduct a general overview of contracting and contracting procedures, the limitations of time during the transition did not permit an exhaustive analysis of each of the City's departments and each of its voluminous contracts for FY 1984. Rather, an attempt was made to make a more limited, and hopefully more accurate, review of certain departments selected to obtain a representative sample of general departmental contracts, subjects of contracts, and implementation of contract procedures. Particular attention was paid to the City's Administrative Services Department (including the Purchasing Division), Fire Department, and Public Facilities Department in order that a representative view might be obtained of the efficiency of contractual procedures in the areas of construction, purchasing of goods and delivery of services and the degree to which the City's formal contract policies are complied with in actual practice. The third phase of the investigation, therefore, included a survey and analysis of individual contracts throughout the City's various departments and the subsequent compilation of relevant material, with particular attention directed to contracts not competitively awarded following public advertising. All Award Letters relating to FY 1984 no-bid contracts were reviewed individually.

As mentioned above, during the third phase the individual contracts of the Administrative Services, Fire, and Public Facilities Departments received detailed analysis. More specifically, the review of individual contracts included an examination of every contract on file with the City Auditor for each of these three departments which was

executed by the appropriate department official and filed with the Auditor on or after July 1, 1983. The following information was recorded for each of these contracts: a) the business name of the contractor; b) the address of the contractor; c) the name of the person signing the contract on behalf of the contractor; d) the vendor number and contract number; e) the type of contract (e.g., fixed price, time and material, or hourly rate) and a brief description of the subject matter of the contract; f) whether the contract was formally advertised; g) if advertised, the number of bidders and whether the low bidder was chosen; h) if not advertised, the reason given for not formally advertising the contract; i) the date and nature of any change order or amendment, as well as the reason given for the change order or amendment; j) the date the Award Letter was signed by the Mayor; and k) the date(s) the contract was signed by the contractor and by the authorized City official as well as the term or time period of the contract.

Detailed profiles of the contracts examined for those three departments are attached as Appendices 3, 4 and 5 to this Chapter. Without reciting in full all contracting information, the following presents some of the more relevant information culled from this investigation:

Administrative Services

The examination of contracts for the Administrative Services Department was concluded on December 22, 1983. As of that date, a total of 30 such contracts had been examined, having an aggregate value of \$475,836. The services to be provided under these contracts include plumbing repairs, electrical work, printing, computer programming, career development, legal assistance, City-facility maintenance, program development and policy research on City government.

There were 13 contracts which had been awarded without public advertising, having an aggregate value of \$369,836. The remaining 17 contracts were repetitive services contracts, having an aggregate value of \$106,000. None of the contracts examined for this Department had been awarded after public advertising. Additional statistical information regarding the contracts examined for this Department is presented in Appendix 3 to this Chapter.

Fire Department

The examination of contracts for the Fire Department was concluded on December 29, 1983. As of that date, a total of 70 such contracts had been examined, having a total value of \$633,283. The services to be provided under these contracts include repairs of vehicles, electrical equipment, and plumbing and heating systems, building and grounds maintenance, laundry service, uniform supplies, consulting services relating to the Augmented Fire Service Availability Project, property inspection, psychological screening and legal assistance.

There were three contracts which had been awarded after public advertising, having an aggregate value of \$60,973. There were 14 contracts which had been awarded without public advertising, having an aggregate value of \$153,510. The remaining 53 contracts were repetitive services contracts, having an aggregate value of \$418,800. Additional statistical information regarding the contracts examined for this Department is presented in Appendix 4 to this Chapter.

Public Facilities Department

The examination of contracts for the Public Facilities Department was concluded on December 23, 1983. As

of that date, a total of 136 such contracts had been examined, having a total value of \$5,695,142. The work to be provided under these contracts includes construction, heating, architectural, engineering, testing and inspection services.

There were 28 contracts which had been awarded after public advertising, having an aggregate value of \$4,012,813. There were 28 contracts which had been awarded without public advertising, having an aggregate value of \$1,184,329. The remaining 80 contracts were repetitive services contracts, having an aggregate value of \$498,000. Additional statistical information regarding the contracts which were examined for this Department is presented in Appendix 5 to this Chapter.

OVERVIEW OF THE CONTRACTING PROCESS IN THE CITY OF BOSTON

A basic understanding of the various types of contracts and the existing contract processes in the City of Boston is essential to a reasoned analysis of existing contract systems and procedures. The following is a brief overview of contract types, applicable rules and existing contract processes.

Types of Contracts

The contractual undertakings of the City of Boston may be categorized, generally, either as advertised or unadvertised. Advertised contracts are those contracts that are awarded after compliance with the formal public advertising requirements outlined below. Unadvertised contracts, on the other hand, are those contracts that are awarded without formal advertising.

Although unadvertised contracts often are referred to as "no-bid" contracts, they nevertheless may be subject to various procedures designed to foster competition through less formal "bids" than those obtained through public advertising. Thus, depending upon the dollar amount of the contract, the availability of competitive sources and/or the dictates of time, "unadvertised" contracts may be awarded on any of the following bases: (1) without public advertising or solicitation of oral price quotes or written quotations; (2) without public advertising, but after solicitation of oral price quotes; or (3) without public advertising, but after solicitation of written quotations.

Another category of contract, which may be either advertised or unadvertised, is known as a "repetitive services" or "requirements" contract. These are contracts for work (such as vehicle repairs, building and equipment

maintenance, snow removal and advertising) that may be needed from time to time, but the scope of which cannot be precisely determined in advance. These types of contracts may be awarded in either of the following methods depending upon the particular department's needs: (1) to a single qualified contractor to perform all necessary work for the term of the contract on an "as required" basis; or (2) as a "multi-vendor contract" to a number of qualified contractors who express an interest in performing work as may be required throughout the fiscal year.

Laws Applicable to the City's Contracting Procedures

The contracting procedures of the City are governed by numerous special legislative acts that have been incorporated into the City of Boston Code (the "CBC") and statutes of broader application which are contained in the Massachusetts General Laws.

City officials are generally forbidden to make expenditures or "involve" the City in contracts requiring future expenditures in excess of sums duly appropriated, except in emergencies and in limited circumstances at the beginning of a new fiscal year. More particularly, in the period after the end of the fiscal year and before regular appropriations have been made, City officials authorized to make expenditures may do so out of existing City funds, charging such expenditures against the next appropriation, but within specified limitations. In addition, contracts for services or supplies recurrently needed may, within specified limitations, be made in advance for up to the first three months of the next fiscal year.

The general form of many City contracts is also prescribed by the CBC. Contracts for two thousand dollars or more require written approval by the Mayor and certification

by the City Auditor, on the contract instrument itself, that an appropriation is available for the contract or that a cited statute permits execution without appropriation.

Special statutory requirements exist for contracts covering the design, construction, alteration, repair or demolition of public buildings or public works. CBC provisions regarding these categories of contracts have been supplemented or superseded in some respects by various provisions of the Massachusetts General Laws.

The Contract Manual

A. Procedures for Contractor Selection and Contract Award

In November, 1979 the City's Corporation Counsel issued a "Manual of Forms and Procedure for the Preparation and Processing of Routine Contracts," generally referred to as the Contract Manual. By what appears to be a contemporaneous Executive Order, the Mayor made use of the Contract Manual mandatory.

The Contract Manual constituted the first major attempt to standardize and simplify the manner in which the City enters into contractual relationships for at least the more routine types of contracts, but it did not purport to govern all City contracts. By its own terms it does not apply to contracts covering design, construction, alteration, repair or demolition of public buildings or public works, which are governed by their own statutory provisions. In addition, it does not apply to "any other contracts which, by their nature, as determined by the Official and/or the Corporation Counsel, cannot be adequately documented by the use of the standard forms and conditions in this manual." Such contracts will continue to be awarded and processed in

accordance with applicable statutes and procedures, including approval in each instance by the Corporation Counsel.

Despite these exclusions, the Contract Manual represents a useful compilation of City contract policy, as well as a relatively comprehensive guide to the City's contracting procedures. Without attempting to detail all of the information contained in the Contract Manual's 68 pages of text or to describe in general its additional 61 pages of forms, certain of the information contained in the Manual is of special note, both in understanding the City's contract policies and procedures and in evaluating their actual implementation.

The Contract Manual first focuses in some detail on the circumstances in which formal written contracts are required by the City Charter. Such contracts must be obtained for all purchases of goods and services which equal or exceed \$2,000 in value and must be approved by the Mayor. In order to avoid an obvious means of circumventing this requirement for formal written contracts, the Contract Manual also explains at length that this requirement includes situations where costs of goods or services (and similar work or goods which properly should be included in the same contract) that may be purchased from time to time over the course of a fiscal year are expected or may be estimated to equal or exceed \$2,000 during that fiscal year.

The Contract Manual also places great emphasis on the significance of final contract approval and award. The Manual states that an Award Letter signed by the Mayor is an essential prerequisite to the execution of a valid contract on behalf of the City. The Manual explains that, because of the importance of Award Letters in the contract process, they must be carefully drafted to describe the nature and purpose of the contract, its basic terms and conditions and the basis

for the award. The Manual then goes on to describe more specifically the contents of the Award Letter for contracts awarded pursuant to public advertising.

For contracts awarded without public advertising, the Award Letter must also adequately justify dispensation by the Mayor from the advertising requirement. The Manual also reminds City officials that, by statute, no authority to dispense with advertising can be given by the Mayor unless the requesting department or official furnishes him with a signed statement giving in detail the reasons for not using the advertising process. The same statute also requires Law Department approval before the Mayor can authorize a City department or official to dispense with advertising. This emphasis on the presumption in favor of public advertising absent a dispensation based on clear justification is highlighted by the Manual's admonition: "Always advertise unless the Official [usually the head of the originating or procuring department] has determined, and has supported that determination with clear and persuasive reasons, that publicly advertising a contract is inappropriate or would serve no useful public purpose."

The Manual goes on to indicate that some of the factors to be considered in deciding whether advertising should be dispensed with are whether (1) the service or product is unique, (2) the services are personal or professional in nature, (3) the services are available only from a particular source, (4) specifications for competitive bids are not feasible or practical to prepare, or (5) an economic advantage would inure to the City by using a particular product or service. The Manual also gives three illustrative examples of "reasons" which are not adequate bases for making an award without advertising. These reasons are (1) the fact that the City has used this service or product in the past with satisfactory results; (2) the fact

that this contract was advertised in the past and there were no bidders or only a sole bidder to whom the contract was awarded; and (3) a general belief that there are no other qualified bidders.

In the case of repetitive services contracts awarded to multiple vendors, the Manual emphasizes that if the past experience of a department indicates that it will expend \$2,000 or more during the course of the year for a particular kind of service -- such as building maintenance, auto body repairs, electrical repair work, or micro-filming -- then public advertising is necessary. The Manual also provides that each instance of work covered by a repetitive services contract must be less than \$2,000 in cost; otherwise, an Award Letter signed by the Mayor will be required. With regard to actual performance of services under multi-vendor contracts, departments are instructed to obtain, for each job as it arises, at least three bids from approved contractors holding such contracts and to award the job to the lowest bidder. In emergencies, departments are permitted by the Manual to accept the offer specifying the earliest completion date of the work, rather than the lowest price.

Some repetitive services contracts are awarded to a single vendor, after public advertising, on the basis of the lowest unit price bid--e.g., rate per hour, rate per page, etc. However, most repetitive services contracts are of the multi-vendor kind. Even when they are publicly advertised, all qualified candidates who apply are normally awarded such a contract. However, it is not the award of a multi-vendor contract, but rather the issuance of a Service Order by the contracting City department, that creates an obligation to perform work and a right to get paid. Thus, a firm may hold a multi-vendor, repetitive services contract in a given year

and yet actually perform no work and receive no payment from the City.

Contracts, whether advertised or not, for the purchase of materials, goods or supplies of any kind (including printing and binding), and for the lease or rental of equipment, are required by the Contract Manual to be processed through the Purchasing Agent. In the case of leases of real property, the Manual refers the interested department to the Public Facilities Department for information and assistance.

The necessity for strict compliance with requirements for formal written contracts and the need for formal contract award as a prerequisite to the validity of a City contract are given special emphasis in the Manual. Indeed, the Manual cites, and quotes at length from, decisions of the Supreme Judicial Court of The Commonwealth of Massachusetts holding that contractors are not entitled to any compensation for services rendered or goods supplied prior to, or in the absence of, a valid formal contract award. That emphasis is particularly noteworthy in light of the relatively routine practice, described below, whereby contractors are regularly performing, and in some cases completing, contracts prior to formal contract award, and in some cases prior even to formal contract initiation.

B. Procedures for Contract Processing

The contract processing function is described in considerable detail in the Contract Manual and can be broken down into two major segments -- (1) the award letter stage and (2) the contract review and execution stage.

1. The Award Letter Stage

a. Advertised Contracts

Where the low bidder is to receive a publicly advertised contract, the Award Letter is prepared by the originating department, submitted to the Budget Division for review and then to the Mayor for his approval. If approved, the Award Letter is signed by the Mayor and returned to the originating department.

b. Unadvertised Contracts

In the case of unadvertised contracts, the Award Letter goes through the above-mentioned process, but with three additional steps which are presumably intended to achieve greater scrutiny and control. These are as follows:

1. The originating department must prepare a letter to the Mayor requesting his permission to dispense with advertising and setting forth its reasons for so doing.

2. The Award Letter must, as a matter of law, be approved by the Law Department. However, the statute does not set forth any criteria to be applied by the Law Department in granting or withholding its approval.

3. After approval by the Law Department and transmission to the Mayor's office, the Mayor's office then sends a copy of the Award Letter to the Finance Commission for an advisory recommendation.

c. Multi-Vendor, Repetitive Services Contracts

Multi-vendor, repetitive services contracts may or may not be publicly advertised, depending on the particular circumstances, but they are not in any event "competitive" in

the accepted sense of that term since, as a general rule, a contract is in fact "awarded" to every qualified firm which "applies" for one within the time specified. However, award of such a contract does not necessarily assure the recipient that he will in fact perform any services for the City during the contract period, since the City has no legal obligation to order services from the holder of such a contract. The significant event is the issuance of a specific Service Order to the holder of such a contract. That is what authorizes him to perform work and entitles him to get paid.

d. Purchase Contracts

As noted above, purchase contracts, whether publicly advertised or not, are handled through the Purchasing Division, with the originating department preparing a purchase requisition describing the item and including any necessary contract requirements and specifications. After funding approval has been granted by the Budget Division, the subsequent handling is determined by the estimated value of the transaction. If the value is \$500 or less, the Purchasing Division buyer gets telephone quotations from three or more responsible suppliers and makes the award to the lowest bidder meeting the specifications. If the value is more than \$500 but less than \$2000, the buyer follows the same procedure outlined above, except that the quotations must be in writing. If the value is \$2000 or more, then the Purchasing Division prepares a public advertisement and proceeds through the advertising process. After the necessary steps have been taken and a contract has been signed, a separate Purchase Order is prepared and sent to the vendor.

e. Contract Processing Flow Chart

The charts attached to this Chapter as Appendices 6, 7, 8, and 9 show the process flow, through both the Award

Letter and the contract review and execution stages, of advertised contracts; unadvertised contracts; multi-vendor, repetitive services contracts; and purchase contracts. As an indication of the amount of time which the process is expected to take, the Contract Manual recommends that contracts be initiated at least 90 days in advance of the date performance under the contract is to begin.

2. The Contract Review and Execution Stage

After an approved Award Letter is received from the Mayor by the originating department, the procedure for the review and execution of the contract itself is substantially the same for advertised and unadvertised contracts. The originating department prepares a standard contract form, together with any pertinent attachments, and sends them to the contractor for execution, along with a cover letter advising the contractor of any additional documents required. After return of the signed contract from the contractor, the originating department reviews all documents for completeness and accuracy, inserts pertinent information such as appropriation data, and forwards the documents to the City Auditor's office. The City Auditor certifies the availability of funds, encumbers the necessary funds and forwards the contract documents to the Law Department for review as to form. Upon completion of its review, the Law Department returns the contract documents to the originating department for signature and appropriate distribution.

FINDINGS, ANALYSIS AND RECOMMENDATIONS

For clarity, the Findings, Analysis and Recommendations will be divided into the five sequential stages through which a contracting transaction between the City and a private contractor passes. These phases are:

- A. Needs assessment, planning, budgeting, and description of contract scope and technical requirements;
- B. Contractor selection and award process;
- C. Contract management and oversight after award;
- D. Payment by the City; and
- E. Resolution of contract issues between the City and the contractor.

A. Needs Assessment, Planning, Budgeting and Description of Contract Scope and Technical Requirements

Unless a proper job of needs assessment and planning is done, the City may end up with goods or services which are unnecessary or which do not adequately meet its true needs, regardless of how efficiently it may have managed the procurement of those goods or services. Similarly, unless realistic and intelligent budgeting is done in advance, the City will never know at the outset what a given project can reasonably be expected to cost. Thus the City will be deprived of the ability to make meaningful choices among different projects competing for the same funds.

The description of the scope of a contract and of its technical requirements also deserves careful attention by

contracting authorities at the outset of the contracting process. In the case of a purchase of standard commercial supplies, this step is the relatively simple one of describing the item and identifying the number of units to be purchased. But even a simple transaction of this kind reflects, or should reflect, management decisions on a number of pertinent questions. For example, should the item in question be centrally purchased and kept in stock for all departments? If so, what inventory levels should be maintained at the central issuing point? What are the most economical quantities in which to order such an item?

In the case of the purchase of services, a careful description of the scope and type of services required is an essential factor in the process leading to the selection of the contractor and also in drafting the contract. Pertinent questions include: are the services truly needed; can they be performed by regular City employees or should a person be hired as a City employee to perform the services; can an outside contractor prepare only an initial study or work plan and then have the work plan implemented by City employees; can City employees be trained by the outside contractor to perform the services; and can City employees work under the direction of the outside contractor?

Where the subject matter of the contract is highly complex, as in a construction project, the description of the scope and technical requirements of the job becomes a critical factor in selecting the design consultant. In such a situation, the issuance of clear, internally consistent technical requirements, which set out the City's real needs and require them to be met in the most economical manner, without unnecessary frills, can play a major role in the efficient financial management of the City's contracting activities.

At the stage of selecting the contractor for the construction phase, the specifications and drawings and description of a contract's scope and technical requirements are obviously critical; these factors dictate the minimum cost of a project. Although the quality of a contracting authority's work at this stage can have a major effect on whether the City spends or saves millions of dollars, the process for review and decision-making at this point appears under existing practice at the Public Facilities Department to be an informal one.

In complex projects there is some interaction between the City department with responsibility for the project and the architect-engineer who initially develops the proposed specifications and drawings. However, in large, complex projects, including virtually all major construction work, a formal process of review of the plans, specifications and technical requirements should be established before the contract is let out to bid. This process should include senior representatives of the architect-engineer, the responsible City department and the ultimate user and should be designed to assure that the technical requirements are clear and consistent, that they will meet the real needs of the ultimate user, and that the project can be accomplished within the established budgetary limitations.

B. Contractor Selection and Award Process

The stage at which the contractor is selected, the price is established and the terms and conditions of the contract are set is crucial to a successful end result. The decision of which private contractor or vendor wins the contract is obviously critical to the contractor and the City: critical to the prospective contractor, since any chance of profiting from City work depends on that decision, and to the City since it offers an opportunity to reward

those prospective contractors upon whom it looks favorably, whether purely for the quality or cost of their work or for other proper or improper reasons.

The selection of the contractor is the stage of the contracting process most susceptible to abuse. For motives probably both good and ill, this potential has been realized in practice. Even when contracts are advertised, the low bid is sometimes passed over in favor of a higher one for reasons that are unpersuasive. At times, all bids are thrown out and the contract is awarded without competition because of a technical deficiency in the low bid. Unadvertised contracting, contemplated by law as exceptional, has instead become the norm. With alarming frequency, departments resort to multi-vendor contracting, which in practice enables them to evade the requirements of truly competitive bidding while presenting the facade of a fair process. Unduly cumbersome procedures and official foot-dragging result in delays in contract approval that are so long that work is often done before the contract is authorized. For these and other reasons, many potential contractors are unable or unwilling to do business with the City. Instead of the robust, open competition for municipal contracts that should exist, too often there is a sedate allocation of awards to a small number of repeat players.

A review of the Department of Public Facilities' awards of construction contracts is illustrative of circumstances which may contribute to a public perception that the system is closed, and highlights current practices that are susceptible of abuse. As an overall matter, a relatively small number of contractors bid on and received Public Facilities construction contracts and a majority of the work that was awarded went to three vendors. More particularly, based upon a review of executed contracts on file with the City Auditor's officer as of December 23, 1983,

a certain construction company was engaged in FY 1984 construction projects aggregating \$2,301,588, which represents 40% of the amount committed by Public Facilities to all such executed contracts in FY 1984 and 65% of such Public Facilities executed construction contracts in FY 1984. The company was also involved in projects initiated prior to FY 1984, but still ongoing. Its share of all ongoing Public Facilities contracts amounts is about 19%. The company is thus clearly the dominant construction contractor for the Public Facilities Department.

According to published business reports, the company was founded in 1980 by a 26-year-old engineer employed by a construction company that was one of the leading construction companies contracting with the Public Facilities Department. The founder of the new company apparently is the son of the owner of the other company. The new company has experienced considerable success, with revenues increasing from approximately \$275,000 for its fiscal year ending March 31, 1981 to \$2,400,000 for the fiscal year ending March 31, 1983. This new company also reported a 100% revenue increase and a 700% profit increase from FY 1982 to FY 1983. Much of those revenues appear to be derived from its contracts with Public Facilities. Indeed, as noted above, in the first 6 months of the City's 1984 fiscal year, Public Facilities awarded the new company contracts in excess of the new company's revenues for all of FY 1983; moreover, this new company also is the low bidder on at least \$660,000 in additional FY 1984 contracts that have not yet been formally approved. Finally, this new company, in at least two cases, has been awarded contracts when lower bids were found to be "technically deficient" in one case and "unrealistically low" in the second. One low bidder appealed its disqualification, but was unsuccessful.

The old company run by the father apparently has not bid against his son's company on any Public Facilities contracts during this period and, thus, has received a steadily decreasing number of Public Facilities contracts. The father's company is, however, the construction contractor on the largest ongoing Public Facilities contract, in an amount in excess of \$4 million.

Finally, the father's company and the son's company have received a substantial portion of the change orders granted in ongoing Public Facilities projects. In the aggregate, they have been granted 4 out of the 7 change orders that involve cost increases executed on ongoing Public Facilities projects, representing more than 70% of the total dollar value of all such change orders.

1. Competitive bidding could be undermined by existing procedures for rejection of bids on advertised contracts.

The Contract Manual requires rejection of "technically defective" bids received in response to public advertising. Unfortunately, the Contract Manual does not provide any guidance as to the meaning of the term. If this term is interpreted to mean "fatally defective," as distinguished from merely containing minor irregularities which may be cured after bid opening, the Manual's direction probably is correct. The Manual however, makes no attempt to define "technically defective" bids and, thus, makes no express distinction between fatal defects, such as non-responsiveness, and less significant, even trivial "defects". The Manual thus leaves a large void which is susceptible to erroneous or even arbitrary disqualification of competitive bids. It thus provides the originating official with options that would foster the allowance of a truly non-responsive bid to a favored vendor or the disallowance of the low bid of a non-favored vendor for

insignificant, or even trivial, bidding defects. Moreover, the Manual goes on to say that if the bidder who submitted the low but "technically defective bid is otherwise responsible and qualified, the contract may be awarded to that bidder if the originating official rejects all bids and requests the Mayor's permission to award the contract without advertising." The Manual in effect vests relatively unfettered discretion in the originating official as to whether a low, but "technically defective" bid will be awarded as an unadvertised contract.

While this course of action seeks to obtain for the City the benefit of the lowest price, it does not constitute sound procurement policy. This unfettered discretion, and the incentive for abuse it creates, must be eliminated. Initially, fixed, definitive guidelines should be established for determining whether a bid is fatally defective, which should be clearly defined as "non-responsive" to the bid request or otherwise flawed in some respect that cannot be cured. Such fatally defective bids should be rejected and the award should be made to the next lowest bidder, assuming that his bid complies in all significant respects with the requirements of the bid invitation. If the spread between the defective low bid and the second low bid is considered excessive, and if time permits, all bids should be rejected and the procurement should be readvertised.

Those bids which are technically, but not fatally, defective under the new guidelines should not be automatically rejected. Rather, the bidder should be given a reasonable time to cure those technical defects. If, for some reason, the bidder fails or refuses to cure the defect, the procedure outlined above for fatal defects then may be followed.

More generally, controls must be established to implement these guidelines and to ensure that a contract is never awarded to anyone but the low bidder unless the award has been closely scrutinized and found justified. The contracting authority should bear the burden of proving to the City Auditor, Law Department and Mayor's office that compelling reasons require that the low bidder be bypassed. For construction contracts, the system of prequalification of bidders mandated by state law provides a vital review of the qualifications of bidders before they are permitted to bid, and serves to assure that all bidders authorized to bid are qualified for the particular project. Those prequalification guidelines could be very helpful in determining whether any request to bypass a low bidder is justified.

2. A great number of the City's contracts are unadvertised and are frequently awarded improperly or with perfunctory justification, in many cases after work already has been started and, in some cases, completed.

As outlined in the Contract Manual, the City of Boston's contract process is designed with the presumption that, absent compelling circumstances, all contracts should be awarded on the basis of competitive bids submitted after public advertising. It recognizes, however, that there are unique circumstances in which the needs of the City and its residents require that goods and services be purchased without competitive bidding. This limited exception has provided the means by which the purposes to be served by competitive bidding are, at best, ignored and, at worst, deliberately defeated.

A review of unadvertised contracts by City departments over the past several years reveals dramatic increases in the level of contracts awarded by the City without benefit of public bidding. By way of example, 1043 Award Letters for unadvertised contracts were processed in FY

1981. In FY 1983, 1979 such Award Letters were processed. The escalation of unadvertised contracts by the City continued during the first six months of FY 1984. During that six-month period, 1044 such Award Letters were processed, thus exceeding the number of such unadvertised contracts in the 12 month period of FY 1981.

Even more startling than the number of unadvertised contracts are the dollar amounts expended by the City for goods and services without competitive bidding. In the first 6 months of FY 1984, unadvertised contracts accounted for almost \$37.7 million in contractual spending -- 53% of the dollar value of contracts funded by the City. Contracts awarded through public advertising, on the other hand, accounted for only \$24.7 million. Thus, only 35% of the City's expenditures for contractual goods and services were pursuant to public advertising and bidding.

A detailed review of contracts in the City's Department of Administrative Services also confirmed relatively large volumes of unadvertised contracts. Forty-three percent (13 of 30) of the Administrative Services contracts reviewed were awarded without public advertising. Those no-bid contracts accounted for 77% (approximately \$370,000 of \$476,000) of the total dollar value of Administrative Services' FY 1984 contracts.

By statute, and under the terms of the City's Contract Manual, detailed reasons for not using public advertising are required. Those reasons must be such as to justify the conclusion that "advertising is inappropriate or would serve no useful purpose or for any reason a contract is not to be awarded to the lowest bidder following advertising." Moreover, the Award Letter must "adequately justify dispensation by the Mayor from the advertising requirement."

The justifications that are generally provided are, at best, perfunctory. As a result, there is little or no basis for determining whether an unadvertised contract is appropriate. For example, a review of the unadvertised contracts for the City's Department of Administrative Services reveals a practice of providing conclusory statements that "no useful purpose will be served by public advertising," thus parroting the conclusion required by the Contract Manual, but providing little or no factual information which would justify such a conclusion. This practice seems to be common in the numerous unadvertised contracts of other City departments reviewed during the investigation.

Indeed, unadvertised contracts appear to be regularly approved for reasons that are clearly stated by the Contract Manual as "not 'clear and convincing' reasons to award without advertising". (Emphasis in original). For example, one of the FY 1984 Administrative Services contracts in the amount of \$28,000 was awarded without advertising based on satisfactory past performance, while another contract in the amount of \$30,000 was awarded on the apparent general belief that there were no other qualified bidders. Each of those reasons, in and of itself, is expressly invalid under the Contract Manual.

The award of unadvertised contracts on bases clearly deemed inadequate by the Contract Manual is symptomatic both of the lack of controls in the existing system for awarding unadvertised contracts and the failure to adhere to those systemic controls that are in place. Under the present contracting procedures, requests for awards of unadvertised contracts are submitted to the Finance Commission for its review. The Finance Commission's recommendation, however, is advisory only; thus, its review does not ensure any meaningful control. Moreover, even that

limited role is frequently undercut. A significant number of contracts reviewed in the course of this study appeared not to have been submitted to the Finance Commission prior to approval. One of those unadvertised contracts was in the amount of \$3 million.

A second means by which the Finance Commission's role is undercut is untimely submission of unadvertised contracts. In 31% of contracts reviewed, the contract period had commenced prior to submission of the contract to the Finance Commission. In late December, 1983, this problem was even more severe -- the contract performance period had already commenced in more than 85% of the contracts submitted to the Finance Commission; in more than 30% of the contracts submitted, the contract completion date already had passed.

Under existing practice, unadvertised contracts are submitted to the Finance Commission at the same time that they are delivered to the Mayor. Thus, another and more important control, the approval authority of the Mayor as compared with the advisory role of the Finance Commission, also is effectively bypassed by untimely submission of unadvertised contracts. Indeed, more than 50% of the unadvertised contracts awarded in FY 1982 reached the Mayor for approval after the contractor had started the work covered by the contract.

While the City in theory has the right to reject an unadvertised contract under which work has already started or been completed, this right has rarely been invoked. Further, contractors would be reluctant to deal with the City, or to accommodate the City's needs for prompt performance, if there were a possibility that technical deficiencies or delays in processing the unadvertised contract might result in non-payment by the City.

It is true that contractors should not be penalized for delays by the City in processing unadvertised contracts. That is a problem that should be solved and eliminated by the City itself. There is a possibility, however, that the level of untimely processing of unadvertised contracts is not solely attributable to delays in processing. In the course of preparing this Chapter, a significant number of unadvertised contracts were found which had not been submitted until after the work had apparently commenced and, in some cases, after the work had already been completed. The possibility exists, therefore, that untimely submission of unadvertised contracts is a deliberate attempt to avoid the possibility that the contract might be deemed to require competitive bidding and to ensure that the contract is given to the vendor chosen by the originating department.

Both the timeliness of submission and delays in processing of unadvertised contracts must be closely monitored. To the extent that delays in processing are systemic, changes to the routing and approval systems should be considered. Insofar as delays in processing are determined to result from individuals within the system, however, those delays can be eliminated, or at least minimized, by close monitoring. This monitoring can be done through the internal audit procedure recommended later in this Chapter.

Strict monitoring should also identify contracts which are not submitted promptly and City departments that routinely fail to submit unadvertised contracts until after the work has commenced. Appropriate action then can be taken to ensure that departments promptly submit such unadvertised contracts. In the event it is determined that certain contractors routinely and knowingly are involved in commencing work prior to contract approval, the City should consider denying payment to those contractors. The City's

refusal to pay, if limited only to those contractors who routinely and knowingly engage in those practices, should not harm the City's relations with the many valued contractors who may from time to time inadvertently perform work prior to approval, but in a legitimate attempt to accommodate the City's need for prompt services.

The majority of unadvertised contracts are for personal services. The City's Contract Manual provides: "although what constitutes 'clear and convincing' reasons will depend upon the nature of the particular contract, some factors to consider are whether . . . (2) the services are personal or professional in nature." The Contract Manual does not attempt, however, to define "professional services" or "personal services," or the distinction between them, nor does it indicate the effect or weight to be attached to those characterizations in determining whether an unadvertised contract is warranted.

Although "personal services" or "professional services" are specifically designated by the Manual as only one factor to consider in determining not to advertise a contract, those designations alone routinely form the basis for awards of unadvertised contracts. That is especially true of contracts for "professional services," which appear almost always to be awarded as unadvertised contracts. By way of example, 8 of the 13 FY 1984 unadvertised contracts awarded by Administrative Services were awarded for the sole reason that they involved professional services.

Undoubtedly, there are certain types of contracts and unique services that from time to time justify a contract award without public advertising. The use of unadvertised contracts must, however, be kept to a minimum, and limited to those circumstances where the needs of the City or its residents, or the nature of the services to be provided,

warrant foregoing the benefits of price competition to be achieved by public advertising.

At the outset, more detailed and specific policies and guidelines must be developed regarding the circumstances that justify an unadvertised contract. The examples set forth in the guidelines as "factors" to be considered provide little guidance concerning the City's policies and criteria that determine the appropriateness of an unadvertised contract, and virtually no guidance as to the weight to be assigned to the various policies and criteria. More detailed criteria not only will ensure a more uniform policy regarding unadvertised contracts in the various departments throughout the City, but also will provide the basis for stricter and better informed monitoring of the award of those contracts.

The reasons advanced for award of unadvertised contracts also must be subjected to close scrutiny to ensure that there are valid reasons not to require public advertising. The current practice of allowing conclusory justifications for failure to advertise must be eliminated forthwith, and the existing statutory and Contract Manual requirements of detailed factual reasons must be strictly enforced.

Even in those circumstances where an unadvertised contract is appropriate, there is no reason to dispense entirely with all systemic controls. Relatively few letters requesting a waiver of formal advertising indicate that the requesting department obtained price quotations from any other vendor. Likewise, few letters give any indication whatsoever of any efforts to locate a competing supplier. The awarding department should be required to detail its efforts to locate competing sources and to solicit, and submit with its request for a waiver of advertising, at least three written quotations from other sources. The awarding

department also should be required to detail the basis upon which any competing vendor or price quotation was rejected.

The fact that a contract is for "personal services" should not, in and of itself, justify failure to advertise. Rather, such contracts should be subjected to the same requirements of detailed justification and strict scrutiny as other unadvertised contracts presumably will receive. In many cases, personal services contracts may ultimately be determined not to require public advertising, but that determination should be made on the basis of all relevant factors, including other available competitors, their qualifications and the uniqueness of the services that are the subject of the contract.

The result of awarding professional service contracts without a structured competitive process is that there can be no assurance that the City in fact is getting the best combination of qualifications, background and expertise, capability to accomplish the particular project at hand, and ability to deliver the highest quality performance within the required time period at the lowest reasonable cost. Moreover, without a structured selection process, the City department is not compelled to develop a precisely focused needs assessment and description of the services it requires. Finally, the absence of a structured review within the department, an orderly and competitive selection process, a documented record open to the public of that process and an independent internal review of the selection not only invites a lack of care and discipline in the process, but also causes uncertainty in the public mind as to the integrity of the process.

In fact, the award of contracts for professional services does lend itself to an orderly, structured, competitive process even though it may not lend itself to the

publicly advertised, price-competitive bid process set forth in existing statutes. The problem, however, is that no such orderly, structured, competitive process has been established by executive action. It exists now only where the establishment of such a process has been required by law, as in the case of award of design contracts in connection with major construction projects.

It is recommended that the Mayor direct the City Law Department (or the Mayor's Contracts Policy Officer) to develop formal guidelines establishing a structured, open and competitive process for the award by any City department of a professional services contract. The Mayor should then promulgate such guidelines by Executive Order to apply to all City departments. As a general practice, with the exception of cases involving unique qualifications, professional services contracts should not be approved by the Mayor unless the selection has been made in accordance with such guidelines.

The guidelines may include, but not be limited to, the following:

1. The department should prepare a detailed statement of the reasons for the need for the services contemplated, a description of the services contemplated and an analysis of why the services cannot be performed by regular City employees.

2. The department should prepare a detailed Request for Proposal (RFP) setting forth the scope of work, qualifications sought, selection criteria and any other pertinent provisions.

3. The department should identify for each such RFP appropriate trade, professional, and general circulation

publications in which notice of the RFP would be appropriate in order to obtain more widespread responses and, as appropriate, cause notices to be published in such publications. The department should also identify and notify persons, firms or other organizations which should receive notice of the RFP. Notice of the RFP should be published in the City Record and in the Central Register published by the Secretary of the Commonwealth, and in any other publications deemed appropriate. The department should also take any other steps to encourage maximum response from potential contractors.

4. The department should establish a review committee to receive and evaluate proposals in response to the RFP.

5. The department should make its selections in accordance with the selection criteria set forth in the RFP and state in writing the basis for its selection, which statement should be a public record.

6. The guidelines should further provide, pursuant to existing law, that professional services contracts be reviewed and approved by the Law Department.

7. The guidelines should include provisions regarding professional services contracts which involve former officers or employees of the City.

8. The guidelines should require that each department file quarterly reports with the Law Department (or Mayor's Contracts Policy officer, or an office designated by the Mayor) listing all professional services contractors performing services for the department, the nature of such services, the compensation paid to such contractors and such

other information as the Law Department (or other designated office) may require. Such reports should be public reports.

This proposal is based on a recently enacted New York State law requiring public agencies in New York State to adopt guidelines for awarding professional services contracts. The law, Section 2879, Contracts for Personal Services of the Public Authorities Law, which was signed by Governor Mario Cuomo on August 3, 1983, regulates "the use, awarding, monitoring and reporting of personal services contracts." Personal services contracts are defined to include legal, accounting, management consulting, investment banking, statistical, research, public relations, design, or other personal services of a consulting, professional or technical nature.

3. Under existing practices, a select group of vendors may be awarded a disproportionate amount of work under multi-vendor contracts.

As previously noted, a department that determines that it will need services performed over the course of a fiscal year may advertise for submission of applications to provide these services. The department may then enter into a multi-vendor, repetitive services contract with each "responsible and qualified" vendor who submits an application. However, the mere execution of a contract does not guarantee the vendor that he will receive any work under the contract. Before one of the vendors is actually selected to perform the specified work, the department official is required by the Contract Manual to solicit bids from at least three vendors and to award the contract to the lowest bidder or, in the case of an emergency, to the vendor who can provide service in a timely manner. However, multi-vendor contracting practices are, in fact, largely unregulated and vary from department to department. Further, there are no

system-wide guidelines for monitoring these contracting practices.

A total of 80 multi-vendor contracts for the Public Facilities Department were examined in the course of this study, having an aggregate value (based on the amounts certified by the City Auditor as being available for payment under the contract) of \$498,000. According to the Public Facilities Department, a contract was entered into with every "qualified" applicant, as determined by the project manager. The project manager is also responsible for selecting the contractor that will actually perform the work. Although the project manager is required to solicit bids for each job from at least three of the vendors who have signed such a multi-vendor contract, the selection of these three vendors is left to the project manager's discretion. While a large number of vendors under these repetitive services contracts reportedly have received work during FY 1984, there are no system-wide controls to prevent the project manager from repeatedly contracting with the same vendors, to the exclusion of other, less favored vendors. In addition, the Contract Manual does not prescribe any monitoring system to ensure that the requisite number of bids have been solicited and, except in emergencies, the lowest bid accepted.

The Fire Department also makes substantial use of repetitive services contracts. A total of 53 repetitive services contracts for that department were examined, having an aggregate dollar value (based on the amounts certified by the City Auditor as being available for payment under the contract) of \$418,800. It was discovered that the Fire Department's procedures for repetitive services contracting differed from those for the Public Facilities Department in several respects.

In order to understand one of these differences, a few aspects of the standard form of contract must be explained. Each such contract contains a face amount and an amount, specified by the department, which is approved by the City Auditor as being available out of the department's appropriation. If the certified amount is less than the face amount of the contract (as it is for multi-vendor, repetitive services contracts), the certified amount may be increased or decreased at any time by delivery to the contractor of a written notice which is signed by a department official and approved by the City Auditor. Therefore, the certified amount may have no relationship to the amount ultimately paid to the vendor over a fiscal year.

The face amount of each repetitive services contract entered into by the Public Facilities Department for a particular service equalled the total amount which the Department expected to spend on the service; however, the amount initially specified in the contract for certification by the City Auditor often varied. By contrast, not only the certified amount but also the face amount of repetitive services contracts entered into by the Fire Department tended to vary even though the contracts ostensibly involved the same services. This variation in the face amounts of the contracts may be significant to the extent that they are intended to impose a ceiling on the amount to be awarded a particular vendor, thus perhaps depriving him of the opportunity of bidding on the type of service specified in his contract.

Another difference was found in examining the Award Letters for repetitive services contracts entered into by the Public Facilities and Fire Departments. The Public Facilities Department issued one Award Letter for each set of multi-vendor, repetitive services contracts to be entered into for a specified, advertised service. By contrast, the

Fire Department issued one Award Letter for 36 repetitive services contracts for a variety of services which had been the subject of several different advertisements. This may be indicative of the wide variety of services required by the Fire Department. However, it was somewhat difficult to determine by reading the Award Letter which vendors were, in actual practice, to provide the same services. Also, this Award Letter seemed to indicate that at least one of the services was to be provided by a single vendor, even though it proclaimed itself to be an Award Letter for multi-vendor, repetitive services contracts.

The Fire Department indicated that, like the Public Facilities Department, it entered into a contract with every qualified applicant. Again, none of the contractors who signed a repetitive services contract was guaranteed work. Rather, the selection of the contractor to perform the work, as well as the identification of those vendors who would be asked to submit bids for the job, was left to the discretion of a Fire Department official. However, the Fire Department indicated that it had provided work to many of the vendors with which it had contracted.

The study revealed that there were relatively few vendors for many of the services to be performed under the multi-vendor contracts which were examined. On the average, there were fewer than five vendors for the multi-vendor contracts which were reviewed for the Public Facilities Department. Based upon an examination of a list maintained by the Fire Department of vendors available to provide services on a repetitive basis during fiscal year 1984, the average number of such vendors for a specified service was approximately 4. In three instances, only two vendors were listed to provide a specified service to the Fire Department and in two instances, only one vendor was so listed. There may therefore be situations where the Fire Department does

not obtain any bids for a particular service, but rather awards the job, presumably, to the only vendor who filed an application with the Fire Department to provide the service. Unfortunately, this practice may not ensure the City that it will necessarily obtain the lowest competitive price for the particular service.

The information which was received regarding multi-vendor contracts suggests that the practice is susceptible to abuse. It is recommended that guidelines be promulgated regarding the selection of contractors to provide services under multi-vendor contracts. These guidelines should include a requirement that, except in specified circumstances, each contractor be given an opportunity to submit a bid for the performance of work which must be performed. These guidelines should also specify the criteria for selecting a contractor if, for example, the bids submitted by two or more contractors are identical. Furthermore, some guidance should be given for the situation in which less than three contractors have submitted applications for a particular service. It is further recommended that an effective, central system for monitoring the actual operation of repetitive services contracting procedures be established to ensure that these guidelines are being followed.

4. Excessive delays in contract approval and in payment by the City are routine. These delays not only may be discouraging businesses, especially small businesses and businesses owned by minorities and women, from doing business with the City, but also may be costing the City substantial sums which are in effect "finance charges" for the anticipated delay in payment by the City.

The average time period between the dates of the Award Letter for the contracts which we examined and the dates on which the contracts were executed by the appropriate department official was more than 75 days. We have been

informed by an official of the Public Facilities Department that, because of the long processing period for contracts and the need to have the work performed, services have been provided under contracts before the contracts have been executed. This practice may be typical. For example, the Fire Department sent to the Mayor two letters, dated September 8, 1983 and September 9, 1983, requesting permission to award repetitive services contracts to a total of 51 listed vendors. However, the contracts with virtually all of these vendors were not executed until the following December even though the Fire Department probably had an immediate need for the services covered by the contracts. Not surprisingly, as many as 20 vendors under these contracts may have commenced work before their contracts were executed by the Fire Department. In addition, many, if not all, of these 20 vendors may have submitted invoices for these services prior to the contract's execution by the Fire Department. Indeed, a vendor mentioned in one of these Award Letters had submitted 15 separate invoices for payment, one of which was dated as early as July 13, 1983, and yet no executed contract for this vendor was on file with the City Auditor as of December 29, 1983.

According to the Finance Commission, more than 50% of the unadvertised contracts awarded in fiscal 1982 reached the Mayor for approval after the contractor had started the work covered by that contract. Such delays in processing contracts, and the resulting practice of starting work before the contract has been fully executed, can produce both managerial and financial problems for the City.

No payment can be made under a contract until it is fully executed and filed with the City Auditor. Some idea of the complexity of the contract approval process can be obtained from the flow charts attached as Appendices 6, 7, 8 and 9, which illustrate the cumbersomeness of executing an

advertised, unadvertised, multi-vendor or purchase contract. In view of the time required to process a contract and the possible practice of performing work before the contract is fully executed, there may be a significant gap between the date on which the contractor performs the services and the date on which he is paid for such services. This delay in payment may deter small businesses (including many minority businesses) from contracting with the City since they generally have more acute cash flow requirements than larger businesses. Indeed, even larger businesses may decide not to seek contracts with the City if they are expected to provide services before the contract is fully executed at the risk that they will not be paid for such services if the contract does not ultimately obtain all necessary signatures. Finally, those businesses that are willing to perform services for the City may be including in their contract prices a financing charge to compensate them for such delays in payment. In view of the large dollar volume of the City's activities, such financing charges may be substantial.

The reasons for delays in contract processing demand further investigation. Such delays must be minimized if the City is to avoid implicit financing charges and promote greater competition for municipal contracts. On the basis of this investigation, several modifications to streamline the contracting process appear to be called for, some of which will probably require legislative approval. These recommendations are:

(a) Review the appropriateness of the \$2,000 floor for formal written contracts and for publicly advertised bids--a figure which was originally adopted in the 1890's. Consideration should be given to whether such a change would decrease opportunities for wider participation in City contracting by small businesses and businesses owned by minorities and women.

(b) Consider whether the Mayor should delegate authority to sign Award Letters, at least up to specified dollar amounts, in the case of publicly advertised contracts.

(c) Review the organizational flow chart for Award Letters and contracts and consider eliminating steps in the process that are not essential to an orderly system or to systemic controls.

(d) Require the Finance Commission to prepare a quarterly report on unadvertised contracts awarded during the preceding quarter, with particular emphasis on the existence and application of criteria for selection, persuasiveness of reasons given for dispensation from advertising and for selection of contractor, and extent of management review of unadvertised contracts within the City administration.

5. The existing contract system is unduly complex and time-consuming and is in practice closed to many prospective contractors, particularly small businesses and those owned by minorities and women.

The City's contracting system, as practiced, appears to cause the widespread belief among many potential vendors and contractors that City contracting is effectively off-limits to them. Among the most telling pieces of evidence are the advertised contracts that draw just one bidder to them. According to the Award Letters for 28 contracts publicly advertised and put out for competitive bid by the Public Facilities Department, an average of only 2.7 bids per contract were received. Two of the three contracts advertised and publicly bid by the Fire Department resulted only in one eligible bid; the third, only three bids. Regrettably, the cynicism that apparently underlies such nonparticipation appears to be well-grounded in fact. The widespread use of unadvertised, no-bid contracts saps the contracting system of its credibility and, in the long run, makes abuse inevitable.

One of the theoretical checks on the power of unadvertised contracts to corrode faith in the system is the publication in the City Record of all Award Letters for no-bid contracts. In theory, publication opens the process to public scrutiny, ensuring that at least some blatant abuses will be exposed and thereby creating the possibility that others will be deterred. In fact, however, Award Letters are published without a date, and sometimes not published until up to two years after the contracts to which they relate were executed. Public attention is thus not focused on some unadvertised contracts until the work has been done and paid for -- long after potential bidders and the press have lost whatever interest they might have had. Such delay enables contracting authorities to escape responsibility for their actions, and thereby perpetuates the unwarranted use of no-bid contracts, and the impression among outsiders that there is no point in applying for City contracts.

Ironically, even multi-vendor contracts reinforce the wall between insiders and outsiders in the world of City contracting. The very contracts that are designed to spread municipal work around among many contractors instead permit contracting authorities to select those with whom they will deal without any formal bidding process or written guidelines or selection criteria. Multi-vendor contracts could conform to the Biblical maxim, "Many are called but few are chosen," in that virtually any business can get its name on a department's list of approved vendors, but thereafter the department exercises nearly unlimited discretion in deciding whom on the list to favor.

Even those businesses that are not frozen out of contracting by lack of access to those City managers making selections of contractors or discouraged from entering by the experience of others on the "outside" often cannot afford to

do business with Boston. The contractor selection and award process is so complex and time-consuming that many who might otherwise be interested do not apply. The very act of learning enough about City contracting to become a plausible competitor is so daunting to some that it becomes a substantial entry barrier. Little or no effort appears to be made to help educate small businesses and businesses owned by minorities and women in the intricacies of public contracting.

Those who understand the system are not necessarily in any better position to participate in it, for being a City contractor also often requires the financial resources to wait for payment until long after the work has been completed. As stated above, a review of the Fire, Administrative Services and Public Facilities Departments has identified many instances in which contractors had been required to start work on projects before the Award Letters had been approved by the Mayor and before their contracts with the City were executed. In such cases, the contractors had no legal right to be paid at all if the contracts were disapproved. Small businesses in particular are ill-equipped to "carry" the City for so long a period or run the risk of not being paid at all. Usually, only big firms have sufficient cash-flow security to permit such an involuntary extension of credit. The advantage of the large over the small in this respect does not owe to legitimate economies of scale, but to wholly unnecessary inefficiency in the City. Moreover, this situation places the contractor at the mercy of the City which decides when and indeed whether to pay at all for work already performed. The situation creates further potential for abuse by allowing City administrators to exercise such unreviewed discretion over public contractors.

The study that was conducted suggests that instead of growth over recent years, there appears to be some atrophy in municipal contracting with businesses owned by women and minorities. Specific factors leading to this poor record include in addition to those mentioned above:

1. Absence of an affirmative program to include businesses owned by minorities or women among the three prospective vendors required to be contacted for written bids by purchasing department for requisitions under \$2,000 and for oral bids for contracts under \$500.
2. Excessive reliance on disqualifying the low bidder for inability to supply goods to meet specific "time of the essence" contracts negatively impacts on businesses owned and operated by minorities and women. Such businesses tend to be small and relatively new and unable to fill contracts with unrealistic time constraints.
3. Delay by the City in paying vendors impacts with greatest severity on small businesses.
4. Failure by the City to advertise contracting opportunities in media serving the minority community or to run bilingual advertisements effectively limits access to the system by minorities.

A compilation of numbers of minority businesses from three sources -- the Boston Urban League, the Neighborhood Development and Employment Agency (NDEA) and the Department of Commerce and Development discloses substantially more than 10,000 minority businesses in Boston and the surrounding area. Yet an analysis of purchase orders conducted by the City Purchasing Division for the first quarter of FY 1984 revealed that there were no minority vendors on bid contracts with that division during that period. Officials of the Purchasing Division have taken positive steps to remedy this situation by:

1. attending a Minority Assistance Opportunity Conference;
2. contacting the NAACP and Urban League to outline the Division's program;
3. meeting with the State Office of Minority Business Assistance;
4. monthly contact with the New England Minority Business Council;
5. publishing the City's proposed bids in the State Office of Minority Business Associations' weekly listing; and
6. researching various private companies' resources of minority vendors.

These steps are important and should be continued by the Purchasing Division and other departments or agencies responsible for contracting.

The City Auditor has also begun a positive effort to identify minority businesses already working with the City. This effort however is presently incomplete. It will require greater coordination, and leadership by responsible department personnel, if the City Auditor's efforts to identify such businesses are to be more successful.

Inclusion in the municipal contracting process of small businesses owned and operated by women and minorities should be a high-priority contracting policy of the City. Senior staff should be given responsibility and resources to implement that goal. Progress toward the goal should be traced in quarterly reports to the Mayor. Consideration should also be given to adopting a minority municipal contracting program of "set asides" similar to a program now in place in Atlanta, Georgia. The City's efforts to increase minority participation in municipal contracting should also extend to professional as well as non-professional services.

The closed nature of Boston's contracting system is not just a detriment to the many businesses, minority or otherwise, that could, but do not, compete for City contracts -- it may also be a problem for the City's taxpayers. An example from the Fire Department illustrates this point, though the problem is endemic to the entire contracting system and no attempt is made here to single out the Fire Department. When the Fire Department advertised a laundry contract in March, 1983, only one bid was received. The bid which was accepted quoted a price of 60 cents per sheet for laundering 30,000 sheets for the current fiscal year and a price of \$3.50 each for laundering 1,000 blankets. Even a cursory survey of laundry prices within the City uncovered one launderer willing to launder sheets for 35 cents apiece, another who would charge 22 cents a sheet, another who would launder blankets for 66 cents each, and others who would launder similar blankets for prices ranging from \$1.50 to \$1.75 apiece. The loss to the taxpayers in one year from the amount apparently overpaid for laundering Fire Department sheets and blankets is relatively small -- conservatively \$7,500 on sheets (30,000 sheets at 35¢ a sheet) and \$1,750-\$2,500 on blankets (1,000 blankets at \$1.75 per blanket). However, if this contract were continued from year to year, the loss to the City over the four-year course of the new Administration would be \$44,000 on these two items alone. If other City departments, with much wider use of sheets and blankets, such as hospital services, public shelters and prisons, were also overpaying for laundry services the excess cost to the City taxpayer could be very substantial. The issue for concern, as much as the dollars lost in this case, is why only one vendor was aware of this contracting opportunity and willing to bid on the job.

Many of the recommendations made elsewhere in this Chapter will serve to open the contracting system to

businesses currently disenfranchised. Some such steps include:

1. Streamline, and speed up, the process of contractor selection and award.

2. Increase the appearance of openness and fairness in the contracting process by minimizing the use of unadvertised contracts and adopting and following public guidelines for multi-vendor and no-bid contracts.

3. Establish an educational outreach program to help interested business people -- especially minorities, women and those involved in small businesses -- to understand how to do business with the City.

4. Require that when advertisements draw only one bidder, action be taken to encourage broader participation -- such as re-advertising the contract, if time permits.

5. Mandate that in those few instances where contracts must legitimately go unadvertised, the contracting authority make reasonable efforts to obtain some competition -- as, for example, by contacting three or more likely contractors for price quotations. Freedom from advertising should not mean freedom from accountability.

6. Make clear on a regular, consistent basis, both inside and outside City government, that the Mayor is personally committed to opening up the contracting process in the City of Boston and that this commitment will be followed up vigorously and on a continuing basis.

C. Contract Management and Oversight

1. Systems for reviewing performance after award are, in general, relatively informal, and control over change orders is unduly lax and creates the opportunity for abuse, including subversion of the competitive bidding process.
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Another phase of the contract process that is most important in terms of cost and satisfactory result is also the phase to which the least public attention is usually devoted. Contract management and oversight is a topic that lacks political appeal and, being a fact-bound, nuts-and-bolts matter, lies largely beyond the reach of legislative initiatives. Yet it is here that mismanagement, inefficiency and lack of vigorous oversight can cost the City the most dearly. The functions of a well-designed system for contract management and oversight include ensuring that: the job is performed in full compliance with the technical and quality requirements of the specifications and drawings; the City fulfills its contractual obligations (such as for site availability or City-furnished materials or equipment) and avoids interference with the contractor's performance; change orders are not abused; the contractor is properly paid; and the contractor complies with the administrative and socio-economic requirements incorporated into the contract.

a. Supervision of Contractor Performance

During the course of this study, the procedures employed by two departments, Fire and Public Facilities, in supervising contractor performance of major projects were reviewed. One Fire Department project that was examined involved the purchase of a fire engine. The specifications for that apparatus were drawn up by the Fire Department itself and bids were solicited by the Purchasing Division on an advertised, competitive bid basis. The contract was awarded by the Purchasing Division to the low bidder. Though the normal contract administration functions remained with

the Purchasing Division, the Fire Department did provide inspection services in connection with that purchase. An inspector from the Department inspected the fire engine once while it was in the process of manufacture and again when manufacturing had been completed and the apparatus had received its final coat of paint. The apparatus then had to be driven over the road (not shipped) from its place of manufacture to Boston, where it was again inspected to assure that it had withstood the stresses and strains of the trip over the road without adverse effects. While the purchase of an elaborate, custom-built item might require prolonged on-site inspection during manufacture, a fire engine is a sufficiently standardized product so that the inspections performed by the Fire Department appear to be adequate.

In the case of the Public Facilities Department, contractor supervision procedures were examined in the abstract rather than by focusing on a specific project. With major projects, the Department centralizes control and responsibility in a project manager. Major projects also have an on-site clerk-of-the-works whose principal function is to monitor performance by the contractor and keep a detailed written log of activities pertaining to progress of the work. In addition, in complex jobs supervision of the contractor's construction activities is normally included as a part of the contract with the architect-engineer who developed the contract specifications and drawings. Over and above the inspection functions performed by the clerk-of-the-works, a site engineer is assigned by the City on a full-time basis to major construction projects, with one of his key duties being to inspect the construction contractor's performance of work in order to confirm that it meets contract requirements.

On paper, the procedures for project management and on-site inspection by a clerk-of-the-works appear reasonable

and, inasmuch as they are consistent with and modeled upon recently-adopted monitoring procedures for state projects, in fact appropriate for projects to which they apply. Whether the procedures work in practice depends of course largely on the qualifications, expertise and diligence of the persons serving as project manager and clerk-of-the-works. In the limited time available, however, the actual qualifications and performance of the Public Facilities Department project managers or clerks-of-the-works have not been reviewed.

b. Control Over Change Orders

The danger posed by change orders is twofold: first, that a contractor may seek extra payment for performing a task he is already obligated under the contract to perform, by camouflaging that task as a change; and second, that a contractor who is entitled to a change order may seek an unduly high price for the change, since he is at that point in the contracting process free from the constraints of competition. Careful, honest, objective monitoring of change orders is critical to the City's interests because the confidence a contractor feels about his ability to obtain change orders and thereby increase the amount paid to him by the City affects his original bid. If he knows that he can obtain approval of his change orders after he is awarded the contract, he may submit an artificially low bid, thereby increasing his chances of winning the contract, secure in the knowledge that he will ultimately be paid more than his low bid. Such a practice obviously would undermine the competitive bid process. Current procedures to protect against these dangers may not be adequate.

In a review of ongoing Public Facilities construction contracts, a pattern was found for change orders which warrants further investigation. As described above, more

than 70% of all the change orders granted on current construction contracts went to two businesses whose owners are related. All of these change orders were granted shortly after the contracts had been executed. Discussions with officials of Public Facilities suggest that there were plausible justifications for these change orders. If in fact the change orders had been wrongful, the absence of an effective review mechanism makes it likely that they would not have been caught. In the absence of such reviews, the possibility exists that excessive costs may be imposed on the City, and even that fraud or wrongdoing may be committed. A system-wide process for monitoring change orders should be instituted consistent with the recently-adopted state practices regarding change orders. Its function should be the application of a consistent litmus test to all change orders, inquiring as to whether the requested change is legitimate, and whether the price is fair.

D. Timeliness of payments and miscellaneous other issues.

Persistent complaints have been received that the City delays excessively in paying its contractors. While there are some occasions when the City deliberately delays payment because of its cash flow at the time, this would seem to account for only a very small proportion of delays in payment. Though it is difficult to identify the precise causes of these delays, it appears that they were largely due to an inefficient, unwieldy and poorly-controlled bureaucratic process, rather than to unavoidable circumstances. Available data indicates that the time lag between a contractor's submission of an invoice and his actual receipt of payment is substantial. For example, a review of multi-vendor contractors with the Fire Department disclosed that many have not been paid yet for work performed last April.

Although it is impossible to quantify the dollar amount, excessive delays in payment must be costing the City large amounts of money on account of hidden finance costs which are built into prices quoted to the City. Contractors who are well aware of the City's record on timeliness of payment know that they will have to finance contract costs for a longer period than that provided by the contract. They therefore must, as prudent businessmen, take the cost of money and the timeliness of payment into account in determining the prices quoted to the City.

Not only does this practice cost the City large amounts in hidden finance charges, but it also reduces competition since, according to some City officials, many firms decline to bid on City contracts because of these payment practices. In addition to reducing competition generally, the City's payment practices are especially detrimental to small and minority businesses. These businesses simply cannot afford in many cases to bid on City jobs of any significant size since they do not have the financial resources to "carry" the City for the length of time which has apparently been customary in the past. Correction of the unsatisfactory payment situation which currently exists should be a high priority.

The City presently makes no provision in the standard contract for requiring contractors to reimburse the City for use of City office space, materials, or equipment. In certain cases, it may be appropriate for the City to be reimbursed for such use, and the City should consider including such provisions in future contracts.

E. Resolution of Contract Disputes

Although an issue can arise in the course of any contract, the most difficult and costly issues usually

involve complex projects of high dollar value. Difficult judgments, involving a balancing of competing considerations, must be made. For example, if the City does not vigorously enforce its rights and require a contractor to fulfill his obligations under the contract, then the City is not getting full value for its contracting dollar. On the other hand, if the City is overly aggressive in insisting that it has no liability and that all problems encountered are the responsibility of the contractor, the City may well end up incurring sizable litigation costs in a losing cause. Such aggressiveness may also further discourage contractors from doing business with the City and thus reduce competition. The remaining discussion on this subject refers to the actual experience of the Public Facilities Department in dealing with contracting dispute resolution.

Questions regarding interpretation of specifications or other contract requirements arise infrequently during the period of contract performance, and they are usually resolved at the working level between contractor and City representatives, without ever becoming major issues. If the particular question cannot be resolved at the working level, the matter is taken up by the contractor at a meeting with the architect-engineer, the department's deputy director and its chief engineer. Neither the department's lawyer nor the contractor's lawyer, if he has consulted one, participate in this meeting, which is viewed as being a management effort on both sides to resolve the particular problem. If the meeting does not result in a mutually acceptable resolution of the problem, and if the contractor is represented by counsel, the department's lawyer then will usually discuss the matter by telephone with the contractor's lawyer. They will exchange views of the positions of both parties and see whether some resolution can be worked out that is considered reasonable and acceptable by both parties. If no settlement can be reached, then the

issue between the parties would have to be resolved by litigation. While relatively few issues require resort to the courts, the issues which ultimately end up before a judge usually are the ones involving the greatest complexity and the largest dollar amounts.

When an issue is resolved on a management basis, and a contract amendment must be processed to increase the price by the amount of the settlement, the department prepares a detailed written justification for the course of action proposed which sets forth the dollar amount involved. This justification is sent to the Law Department for approval in conjunction with the processing of the necessary contract amendment documents as required by the Contract Manual. A Law Department attorney may raise questions concerning the department's justification memorandum. However, as a practical matter, in light of his workload and limited familiarity with the types of contracts involved, the Law Department attorney relies heavily on the department's expertise. Therefore, he will usually approve the department's recommended action.

The conduct of litigation on behalf of the City is the prerogative and responsibility of the Law Department. Thus, in cases where it becomes evident that settlement discussions at the contractor-department level are not producing results and that litigation is likely to be the ultimate outcome, the department's lawyer will normally advise the appropriate Law Department attorney of the status of the matter and of the probability that litigation will result. Overall management of any resulting litigation remains the responsibility of the Law Department, rather than the operating department. As a result, the Law Department decides whether to handle the litigation in-house or retain outside counsel. If the Law Department does decide to handle the litigation, the department's lawyer, in light of his

background in the subject matter of the dispute, may also assist the Law Department in developing and presenting the City's position.

While it is difficult to generalize from the practice of a single department regarding the resolution of disputes with contractors during contract performance, several observations can be made. First, the relationship between the operating department and the Law Department regarding the resolution of issues without litigation appears to be entirely informal, but it reportedly works. Second, while resolution of day-to-day issues at the department/contractor level is probably the most efficient approach and should be encouraged, it appears that legal counsel should be brought into the process somewhat earlier than is now the case.

Before positions have hardened on both sides, counsel can play a valuable role in setting the stage for reasonable negotiations by the contractor's and department's management. Counsel's role at this stage should not be solely that of an advocate arguing the department's position, but should also be that of an advisor pointing out to the department: the weaknesses as well as the strengths of its position; the benefits of a reasonable settlement over litigation, taking into account the cost, time and resources required for litigation; and the lawyer's judgment of a reasonable settlement range.

Additional Recommendations

1. Establishment of Mayor's Contracts Policy Officer and Internal Contract Auditing Group.

Strong public steps should be taken to signal an intention to change the City's contracting system as

described in this Chapter. These steps should include appointing a Contracts Policy Officer in the Mayor's Office and establishing an Internal Contract Auditing Group which reports to the Mayor.

The Mayor's Contracts Policy Officer would advise the Mayor regarding all matters pertaining to contracting policy by City departments. Such officer would also assist individual departments in establishing guidelines for the award of contracts and particularly in establishing criteria and procedures for awarding unadvertised or multi-vendor contracts and Service Orders; assist in establishing information systems in departments in order to enable them to keep track of what contracts have been awarded and to whom; monitor particular contractors' performance and assure that such information is made available to the public; assure that the contracting process itself is a public process and that records of contract awards and selection processes are open to public inspection; and devise methods of increasing participation in City contracting by contractors and vendors previously excluded or discouraged from participation, including assisting departments in recruiting new applicants for contracts. Such officer would also review all contract matters which require the Mayor's approval.

The Internal Contract Auditing Group would have as its fundamental function monitoring compliance by City departments with established policies and procedures. Such group would: review procedures used by City departments to assess contract needs, to monitor contractor selection and to oversee the performance of contractors and vendors; review procedures and contract awards to identify aspects of the contracting process most susceptible to misconduct or waste; develop and implement auditing techniques to detect and deter such abuse; and review selected contract awards and the

performance of vendors on selected contracts to ensure compliance with guidelines.

Establishment of these two separate functions is a small investment to increase the City's ability to administer and oversee almost one-half billion dollars of City contracts.

2. Commencement of a Survey of Ongoing City Contracts

The first assignment of the Mayor's Contracts Policy Officer should be to cause a review of all ongoing City contracts by City departments. As described above in the Scope of Investigation, of the many City departments engaged in awarding contracts and thereby obligating the City to spend public money to pay selected vendors for performing services or providing goods or construction, the ongoing contracts of only three representative departments were examined in detail in the course of this study. If the Mayor is truly to gain some control over the ongoing contracts previously entered into by the City, which contracts his administration will be contractually bound to honor unless discontinued, a review of all ongoing contracts is critical.

The only way that a complete list of all ongoing contracts can be compiled is if the contract Award Letters and the contracts themselves for each department are examined. The task of reviewing all contracts within most departments once the contracting system is understood is not excessively time-consuming or complicated. Therefore, the Mayor, through his Contracts Policy Officer, should direct each of his department heads to prepare a schedule of all outstanding contracts originating with each department. For each contract, information should be collected similar to that assembled for this study and which is described on page

VIII-11 of this Chapter. The data should first be recorded from copies of contracts at the departments and then checked against copies of the contracts filed with the City Auditor. All contracts should then be separated by categories: publicly advertised, competitive bid contracts, unadvertised contracts, repetitive services contracts (including multi-vendor contracts), and purchase contracts.

Once data sheets have been completed for all contracts, each department head should then review such contract forms for his department and make a determination whether to recommend continuance or termination of each contract on the schedule. Each department head should then submit a list of all contracts within his department to the Mayor's Contracts Policy Officer, accompanied by the recommendation of whether the contract should be continued or discontinued. The Mayor's Contracts Policy Officer should review the determinations of the department heads regarding continuance or termination of that agency's contracts. Obviously, before deciding to discontinue any contract, a review should be made to determine whether the City has the legal authority under the terms of the particular contract to do so. In that regard, Article 8.4 of the General Conditions of the City's Standard Contract provides for termination "at any time for the convenience of the City" on at least 7 days' written notice. The contractor is, of course, entitled to payment at the contract rate to the date of termination.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Introduction

As of January 2, 1984, the City's ongoing contracts total almost half a billion dollars. Those contracts in one way or another touch the lives of all Boston residents, from the student who does his homework on paper purchased by the City, to the elderly resident of public housing who depends on elevators that are maintained by a City contractor, to the taxpayer for whom the cost-effectiveness of City contracting is a significant, if underappreciated, determinant of the taxes he pays.

The patchwork quilt of Boston's funding sources and contracting authorities is so complex and ill-documented that little can be said with total confidence as to where this money comes from, where it goes or how it makes the trip.

Boston awards contracts in any of three ways. Some contracts, including those for purchases, are advertised and awarded to the lowest responsible bidder. Others are awarded without formal advertisement. And others are repetitive services contracts which may be executed with single or multiple vendors. Of 1,446 ongoing, City-funded contracts surveyed, a full 39% were unadvertised, 32% were for repetitive services and just 26% were advertised. Unadvertised contracts accounted for 53% of the dollar value of those contracts, with advertised contracts amounting to only 35%. Extrapolating from these figures to City contracts funded from all sources suggests that more than half of the nearly \$500 million in outstanding City contracts were awarded without formal advertising and open bidding.

The study of this vast, complicated field was not intended to detect wrongdoing. Rather, its purpose was to

assist the City Administration in establishing a contracting process that operates fairly, honestly and openly at the same time that it obtains needed goods, services and construction of the highest quality and at the lowest appropriate cost to the City, from as widespread a group of Boston-based contractors as possible. Toward this goal, the study consisted of the following three phases: (1) review of the various statutes, ordinances and contract manuals governing City contracts; (2) examination of documents revealing the ways in which these governing rules are implemented throughout the City, including bid approval forms, award letters and contract documentation; and (3) intense study of the individual contracts of three departments believed to be representative, namely, Administrative Services, Fire and Public Facilities, as well as a more general review of the contracts of other departments throughout the City, with particular emphasis on unadvertised, and no-bid, contracts. Among other things examined in this third phase review were 30 Administrative Services contracts with an aggregate value of \$475,836; 70 Fire Department contracts totalling \$633,283; and 136 Public Facilities contracts amounting to \$5,695,142.

In addition to the specific findings described in the next section of this Summary, there was a general finding that a serious need exists to open up the process by which all three kinds of contracts are awarded. Although the small minority of contracts that are advertised appear to be awarded under adequate procedures, the scope of participation in the bidding process is dismayingly narrow, e.g., an average of only 2.7 contractor bids on contracts advertised by the Department of Public Facilities, and just 1.7 on Fire Department contracts.

A much greater problem than the advertised contracts, however, is posed by the roughly three-quarters of all contracts that are not subject to the requirement of

advertising and public bidding. Unadvertised contracts are highly susceptible to abuse because there is little or no effective monitoring of contractor selection. Specifically, no written guidelines were found for such selection, no stated criteria, no requirement of a public statement of the reasons for selection of a particular contractor, and no effective independent review. The few checks and controls that exist in theory often do not operate in fact. For example, the reasons given by contracting authorities for dispensing with advertising were frequently perfunctory and unconvincing, and in some cases were even expressly declared by the City's Contract Manual to be invalid. Publication of Award Letters in the City Record, required by law for all unadvertised contracts, occurred in some cases up to two years after execution of the contracts to which the letters related. Although all unadvertised contract awards are supposed to be routed through the Finance Commission, many inexplicably were not.

Multi-vendor contracts permit contracting authorities to select those with whom they will deal without any formal bidding process or written guidelines or selection criteria. Such contracts may conform to the Biblical maxim, "Many are called but few are chosen," in that virtually any business can get its name on a City department list of approved vendors simply by responding to an advertisement, but thereafter the department exercises nearly unlimited discretion in deciding whom on the list to favor. The popularity of this form of contracting among City departments is demonstrated by the record of the Public Facilities Department, more than half the contracts of which are multi-vendor.

Unnecessary delays in approval and payment of contractors are the price that contractors have learned they must pay when doing business with the City of Boston. More

than half the unadvertised contracts issued in FY 1982 reached the Mayor for approval after the contractor had started the work covered by the contract. Lengthy delays in payment are routine. As a result of these delays, the City pays implicit "finance charges" on many contracts, such a charge representing the amount of the contract price added by the contractor to cover his interest costs during delays in contract processing and payment. Small and minority-owned businesses often lack adequate cash-flow to "carry" the City during these delays, and so cannot afford to deal with the City.

Perhaps the greatest challenge to the new Administration in the area of contracting is to make the system as open in reality as it is on paper. There is evidence of a widespread belief among business persons that the supposedly open, public, competitive system of City contracting is in fact closed, private and uncompetitive. This perception, nourished by the prevalence of unadvertised and multi-vendor contracts, helps to create the reality that it reflects. In the end, the closed system fails to promote the vigorous competition necessary to ensure that the City obtains quality goods and services at a reasonable cost.

Summary of Findings

- o The City of Boston is currently committed to payments totalling at least \$497,772,442.98 under ongoing contracts.
- o Approximately 26% of City-funded contracts are awarded through formal competitive bidding; these competitively-bid contracts account for \$24,737,508.82 (approximately 35% of the dollar value of City-funded contracts) of the City's contractual expenditures.
- o More than 39% of the City's contracts are awarded without formal advertising; these unadvertised contracts account for \$37,691,385.58 (53% of the dollar value of

City-funded contracts) of the City's contractual expenditures.

- o Before the end of the first six months of FY 1984, the dollar volume of executed contracts funded by trust revenues had already exceeded the original appropriation for the entire fiscal year.
- o Within the same period, current appropriations for City-funded contracts exceeded the original appropriation by 27%.
- o A relatively small number of contractors compete for contracts awarded by the City through public advertising.
- o A majority of the construction work awarded by the Department of Public Facilities went to three vendors.
 - o Within the first six months of FY 1984, one construction company was awarded over \$2.3 million in Public Facilities construction projects, which represents 40% of the amount of all executed FY 1984 contracts and 65% of executed FY 1984 construction contracts.
 - o This same construction company is the low bidder on at least \$660,000 in FY 1984 Public Facilities construction projects that have not yet been formally awarded.
 - o The owner of this construction company founded the business in 1980 at the age of 26. Revenues increased from approximately \$275,000 for its 1981 fiscal year to \$2.4 million in FY 1983. The company also reported a 100% revenue increase and a 700% profit increase from FY 1982 to FY 1983. Much of those revenues appear to be derived from Public Facilities contracts.
 - o The owner of this new construction company is the son of the owner of another construction company that was one of the leading construction companies for Public Facilities. The father's company apparently has not bid against his son's for Public Facilities contracts. Although the number of the father's company's contracts with Public Facilities has declined, it holds the largest ongoing Public Facilities construction contract in an amount in excess of \$4 million.

- o The father's company and the son's company have been granted four of the seven change orders for cost increases on ongoing Public Facilities projects representing more than 70% of the total dollar value of all such change orders.
- o Competitive bidding could be undermined by the relatively unfettered discretion vested in City representatives to reject low bids that are "technically defective."
- o Unadvertised contracts have become the norm rather than the exception and are the means by which the purposes of competitive public bidding are, at best, ignored and, at worst, deliberately defeated.
 - o A great number of the City's contracts are unadvertised and are frequently awarded improperly or with perfunctory justification, in many cases after work already has been started and, in some cases, completed.
 - o During the past several years, there have been dramatic increases in the level of awards of unadvertised contracts, e.g., from 1,043 in FY 1981 to 1,979 in FY 1983.
 - o During the first six months of FY 1984, 1,044 unadvertised contracts were processed, which accounted for almost \$37.7 million in expenditures.
 - o 43% of the Administrative Services contracts reviewed were awarded without public advertising; these unadvertised contracts accounted for 77% (approximately \$370,000 of \$476,000) of Administrative Services' FY 1984 contracts.
 - o A significant number of unadvertised contracts, including one for \$3 million, apparently were not submitted, as required, to the Finance Commission prior to approval.
 - o More than 50% of the unadvertised contracts in FY 1982 reached the Mayor for approval after the contract performance period had commenced.
 - o 31% of unadvertised contracts reviewed were submitted to the Finance Commission after the contract period had commenced.
 - o During late December, 1983, 85% of unadvertised contracts were submitted to the Finance

Commission after contract performance had commenced; in more than 30% of those contracts, the contract completion date had passed.

- o The majority of unadvertised contracts awarded were for personal services.
- o Contracts for professional services routinely are awarded as unadvertised contracts--8 of 13 FY 1984 contracts awarded by Administrative Services were awarded for the sole reason that they involved professional services.
- o Under existing practices, a select group of vendors may be awarded a disproportionate amount of work under the City's multi-vendor contracts.
 - o Although virtually anyone can get on the multi-vendor list, City department officials need only solicit bids from three vendors on the list chosen at the discretion of the department.
 - o No controls exist to ensure that three bids are received or to prevent City departments from repeatedly soliciting bids from the same selected vendors.
 - o In general, there are relatively few vendors for many of the services performed under multi-vendor contracts--of the multi-vendor contracts reviewed, an average of less than five contractors placed themselves on the list to be one of the three vendors selected to bid on services performed under a multi-vendor contract.
- o Excessive delays in contract approval and in payment by the City are routine, and those delays not only may be discouraging businesses, especially small businesses and those owned by minorities and women, from contracting with the City, but also may be costing the City substantial implicit "finance charges" to compensate contractors for anticipated delays.
 - o The average time period between the dates of the Award Letter and contract execution for contracts examined was more than 75 days.
 - o Fire Department contracts with 51 vendors for services needed were not executed for more than three months after initiated--as many as 20 of the vendors may have commenced work

before the contracts were executed; many, if not all of them, submitted invoices before the contracts were executed; and one vendor may have submitted as many as 15 separate invoices before execution and filing of the contract with the City Auditor, starting as early as five months before.

- o The City's existing contracting system is in practice "closed" to many prospective contractors.
 - o For 28 contracts publicly advertised and put out for bid by the Public Facilities Department, an average of only 2.7 bids per contract were received.
 - o Two of the three contracts publicly advertised and put out for bid by the Fire Department resulted in only one eligible bid; the third, only three bids.
 - o The resulting lack of bids and competition may result in unnecessary expense to the City and its taxpayers. For example, the Fire Department received only one bid on a 1983 contract for laundering 35,000 sheets and 1,000 blankets over the course of the year. Even an informal, cursory review during this study yielded several launderers who quoted prices for those services that would have saved the City \$10,000 per year.
 - o While virtually any business can get its name on a department's list of approved vendors under multi-vendor contracts, the department exercises nearly unlimited discretion in deciding whom on the list to favor.
 - o The City's contractor selection and award process is so complex and time consuming that many businesses that might otherwise be interested in contracting with the City do not apply.
 - o These complexities and substantial delays in payment by the City especially discourage small businesses, including those owned by minorities and women, from contracting with the City.
 - o Although there are more than 10,000 minority businesses in Boston and the surrounding area, no minority businesses received Purchase

Orders from the City's Purchasing Division during the first quarter of FY 1984.

- o Systems for reviewing performance after award are, in general, relatively informal; control over change orders is unduly lax and creates the opportunity for abuse, including subversion of the competitive bidding process.

Summary of Recommendations

- o Establish a comprehensive information control system on publicly advertised contracts.
- o Provide for pre-advertising review by a central authority of plans, specifications and technical requirements for large, complex contracts, including all major construction contracts.
- o Establish fixed guidelines for determining whether defective bids are "fatally" or just technically defective.
- o Require that when the low bid received on a contract is fatally defective, that bid be rejected and the next lowest be accepted, unless the latter is deemed unreasonably high, in which case the contract should, if time permits, be readvertised.
- o Set a policy that, where only one bid is received on an advertised contract, the contract is to be readvertised, time permitting.
- o Make unadvertised contracts the exception rather than the norm.
- o Require legitimate, persuasive justifications for the few contracts that must be awarded without advertising.
- o Require that contracting authorities obtain three written price quotes before awarding an unadvertised contract.
- o Formulate specific guidelines as to what kinds of contracts need not be advertised.
- o Monitor the timeliness of submission and processing of unadvertised contracts.
- o Establish a structured, open system for awarding contracts for professional services, including clearly defined selection criteria

and recruitment of competitors for such awards.

- o Consider denying payment to contractors who routinely commence work before the contract for such work is approved.
- o Streamline the contracting system by:
 - o modifying the policy that the Mayor sign every City contract and adopting other measures as outlined in this Report;
 - o reviewing the appropriateness of the \$2,000 floor for formal, written contracts, with a view toward increasing the minimum.
 - o Provide written guidelines for, and effective review of, the award of multi-vendor contracts.
 - o Open up the contracting system by:
 - o reducing delays in contract processing and payment, so that small and minority-owned businesses can afford to deal with the City;
 - o establishing an education outreach program for small and minority-owned businesses;
 - o making greater participation by businesses owned and operated by women and minorities a high priority;
 - o considering implementation of a program setting aside certain municipal contracts for minority-owned businesses.
- o Establish City-wide monitoring of change orders consistent with recently adopted state practices in that field.
- o Appoint a Mayor's Contracts Policy Officer to: assist in establishing criteria and procedures for unadvertised and multi-vendor contracts; advise the Mayor on matters relating to contracting; assist in establishing information systems to keep track of contracts; monitor particular contractors' performance; devise methods of increasing participation in City contracting; and review all contract-related matters requiring the Mayor's signature.
- o Create an Internal Contract Auditing Group to monitor closely compliance with established policies and procedures, and selected individual contracts.

- o Review all ongoing City contracts to determine whether to continue or discontinue them.

Appendix 1

Partial List of City and County Departments and Agencies Engaged in Contracting

Administrative Services

Assessing

Auditor

Boston Committee

Boston Redevelopment Authority

Cemetery Division

City Council

City Record

Commission on Handicapped Community Services

Elderly Affairs

Election Department

Emergency Shelter

Environment Department

Fair Housing

Fire Department

Freedom Trail

Health & Hospitals

Inspection Services

Law Department

Library Department

Licensing Board

Mayor's Office

Parks and Recreation

Penal Institutions

Police Department

Public Facilities

Public Works

Real Property

Rent Control Division

Registry

Retirement Board

School Department

Suffolk County Jail

Traffic and Parking

Treasury Department

Veterans Services

Workmen's Compensation Services

Appendix 2

SOURCES OF BOSTON'S CONTRACT FUNDING

<u>Source</u>	<u>Original Amount</u>	<u>Current Amount</u>	<u>Balance</u>
City- Current	\$171,763,298.97	\$136,306,141.38	\$81,826,846.71
Federal & State	356,228,085.76	156,369,584.96	46,694,528.59
Trusts	1,029,646.62	1,035,877.98	251,407.71
Bonds	84,045,443.15	77,923,505.94	36,367,033.66
City-Past Years	165,625,096.89	126,137,332.72	14,137,296.42
Total	<u>\$778,691,571.39</u>	<u>\$497,772,442.98</u>	<u>\$179,277,113.09</u>

EXPLANATORY NOTES

The new computer run derived the above information from the City's Encumbrance Open Order Listing ("EOOL") as of January 3, 1984, which lists all contracts for which the City Auditor had "encumbered" funds by certifying that money was available for payment. The City Auditor has said that the EOOL is the best central source of information on outstanding contracts.

The vertical column in the above chart labelled "Original Amount" shows the original appropriation for contracts, including purchase and service orders and leases. The "Current Amount" column shows the dollar volume of such contracts outstanding. The "Balance" shows the amount of the most recent, total contract appropriation not yet committed to executed contracts. According to the City Auditor's office, if the sum of the "Balance" and the "Current Amount" differs from the "Original Amount," the original appropriation must have been changed.

The first four horizontal rows of the above chart 2 show the source of the funding of all outstanding contracts executed in fiscal 1984. The fifth horizontal row reflects City-funded contracts executed before fiscal 1984 but still outstanding. Since appropriations for these contracts were

Appendix 2

made in prior years, they are not chargeable against the 1984 City budget. The figures are totalled in the sixth row.

Appendix 3

STATISTICAL PROFILE FOR ADMINISTRATIVE SERVICES DEPARTMENT

Ending Date of Examination: December 22, 1983

Number of Contracts Examined: 30

Advertised Contracts: 0
Unadvertised Contracts: 13
Repetitive Services Contracts: 17

Total Dollar Value of Contracts Examined: \$475,836

Unadvertised Contracts: \$369,836
Repetitive Services Contracts: \$106,000

Types of Services Under Unadvertised Contracts and
Percentage of All Unadvertised Contracts, by Dollar
Value, to be Paid For Each Type of Service:

Computer Program Development: 38%
Legal Assistance: 33%
Career Development Program: 10%
Maintenance of City Facilities: 11%
Policy Research on City Government: 8%

Types of Services Under Repetitive Services Contracts
and Percentage of All Repetitive Services
Contracts, by Dollar Value, to be Paid For
Each Type of Service:

Plumbing Repairs: 6%
Electrical Work: 14%
Printing: 80%

Reasons For Waiver of Formal Advertising and Number
of Contracts in Which Each Reason Was Stated:

Professional Nature of Services Provided: 9
Unique Capabilities of Vendor: 3
Past Performance by Vendor: 1
Quality of Vendor: 1

One contract cited two reasons -- professional
nature of services provided and unique
capabilities.

Average Number of Contractors for Each Group (by Service) of
Multi-Vendor, Repetitive Services Contracts: 5.6

Appendix 3

STATISTICAL PROFILE FOR ADMINISTRATIVE SERVICES DEPARTMENT (Continued)

Median Number of Contractors for Each Group (by Service) of
Multi-Vendor, Repetitive Services Contracts: 4

Average Number of Days Between Date of Award Letter
and Date of Execution by Department Official for

Unadvertised Contracts: 79

Repetitive Services Contracts: 68

Appendix 4

STATISTICAL PROFILE FOR FIRE DEPARTMENT

Ending Date of Examination: December 29, 1983

Number of Contracts Examined: 70

Advertised Contracts: 3
Unadvertised Contracts: 14
Repetitive Services Contracts: 53

Total Dollar Value of Contracts Examined: \$633,283

Advertised Contracts: \$60,973
Unadvertised Contracts: \$153,510
Repetitive Services Contracts: \$418,800

Types of Services Under Advertised Contracts and
Percentage of All Advertised Contracts, by Dollar
Value, to be Paid for Each Type of Service:

Laundry service: 55%
Uniform supplies: 30%
Telecommunications: 15%

Types of Services Under Unadvertised Contracts and
Percentage of All Unadvertised Contracts, by Dollar
Value, to be Paid for Each Type of Service:

Fee implementation of Augmented Fire
Service Program: 48%
Property inspection: 33%
Psychological screening: 12%
Legal assistance: 5%
Rental space for radio equipment: 2%

Types of Services Under Repetitive Services Contracts
and Percentage of All Repetitive Services
Contracts, by Dollar Value, to be Paid for
Each Type of Service:

Auto-truck-boat repairs: 58%
Electrical equipment repairs: 14%
Plumbing and heating repairs: 13%
Alarm and radio repairs: 4%
Building and grounds maintenance: 11%

Average Number of Bids for Advertised Contracts: 1.7

Median Number of Bids for Advertised Contracts: 1

Bid statistics are based upon Award Letters
for contracts examined.

Appendix 4

STATISTICAL PROFILE FOR FIRE DEPARTMENT (Continued)

Reasons For Waiver of Formal Advertising and Number of Contracts In Which Each Reason Was Stated:

Professional Nature of Services Provided: 13
Unique Capabilities of Vendor: 2
Past Performance by Vendor: 1

Two contracts provided two reasons --
professional nature of service and past
performance cited in one contract; unique
capabilities and professional nature of
services cited in the other contract.

Average Number of Contractors for Each Group (by Service) of Multi-Vendor, Repetitive Services Contracts: 4.4

Based on grouping by service as shown on
list of repetitive services contracts for FY
1984 provided by the Fire Department.

Median Number of Contractors for Each Group (by Service) of Multi-Vendor Repetitive Services Contracts: 3

Based on grouping by service as shown on
list of repetitive services contracts for FY
1984 provided by the Fire Department.

Average Number of Days Between Date of Award Letter and Date of Execution by Department Official for

Advertised Contracts: 58
Unadvertised Contracts: 69
Repetitive Services Contracts: 102

Appendix 5

STATISTICAL PROFILE FOR PUBLIC FACILITIES DEPARTMENT

Ending Date of Examination: December 23, 1983

Number of Contracts Examined: 136

Advertised Contracts: 28

Unadvertised Contracts: 28

Repetitive Services Contracts: 80

Total Dollar Value of Contracts Examined: \$5,695,142

Advertised Contracts: \$4,012,813

Unadvertised Contracts: \$1,184,329

Repetitive Services Contracts: \$498,000

Types of Services Under Advertised Contracts and
Percentage of All Advertised Contracts, by Dollar
Value, to be Paid for Each Type of Service:

Construction: 86%

Heating services, energy conservation: 7%

Security and miscellaneous other services: 7%

Types of Services Under Unadvertised Contracts and
Percentage of All Unadvertised Contracts, by Dollar
Value, to be Paid for Each Type of Service:

Architectural and engineering: 42%

Gasline services: 27%

Consulting services: 16%

Stenographic systems and miscellaneous
other services: 15%

Types of Services Under Repetitive Services Contracts
and Percentage of All Repetitive Services Contracts,
by Dollar Value, to be Paid for Each Type of
Service:

Trade services: 51%

Architectural and engineering: 32%

Testing and inspection: 6%

Surveying and miscellaneous other
services: 11%

Appendix 5

STATISTICAL PROFILE FOR PUBLIC FACILITIES DEPARTMENT (Continued)

Average Number of Bids for Advertisted Contracts: 2.7

Median Number of Bids for Advertised Contracts: 2.5

Bid statistics are based upon Award Letters for
contracts examined.

Reasons For Waiver of Formal Advertising and Number
of Contracts in Which Each Reason Was Stated:

Professional Nature of Services Provided: 20
Unique Capabilities of Vendor: 6
Past Performance by Vendor: 1
Emergency Nature of Service: 1

Average Number of Contractors for Each Group (by Service) of
Multi-Vendor, Repetitive Services Contracts: 4.4

Median Number of Contractors for Each Group (by Service) of
Multi-Vendor, Repetitive Services Contracts: 4.5

Average Number of Days Between Date of Award Letter
and Date of Execution by Department Official for

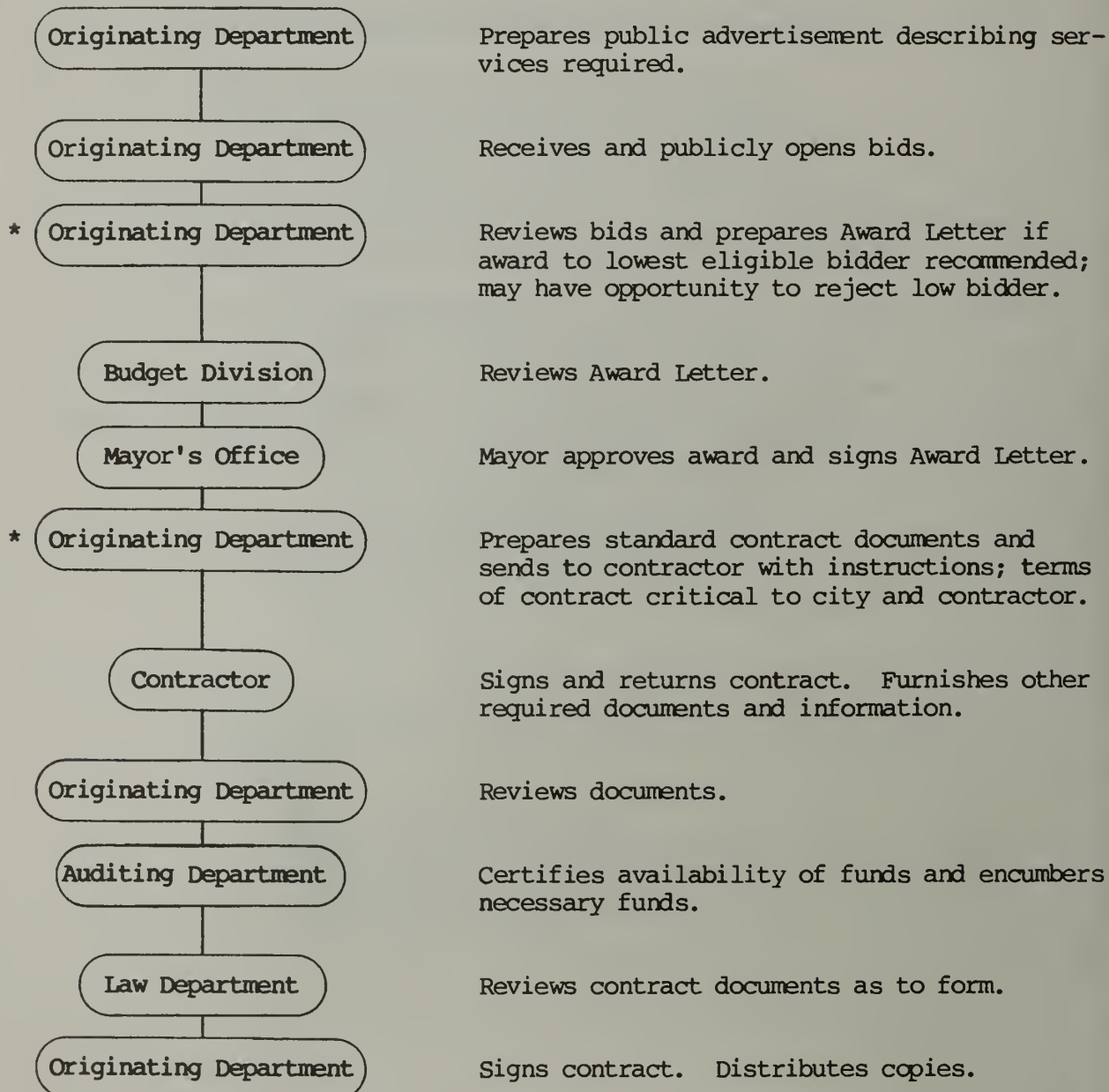
Advertised Contracts: 74
Unadvertised Contracts: 87
Repetitive Services Contracts: 164

Appendix 6

CONTRACTING PROCEDURE: WHAT HAS TO HAPPEN BEFORE A CITY CONTRACT IS SIGNED

- * Stages where considerable discretion exists and where definitive written policy guidance, criteria and procedures and/or top management oversight appear to be very limited or non-existent

Advertised Contracts

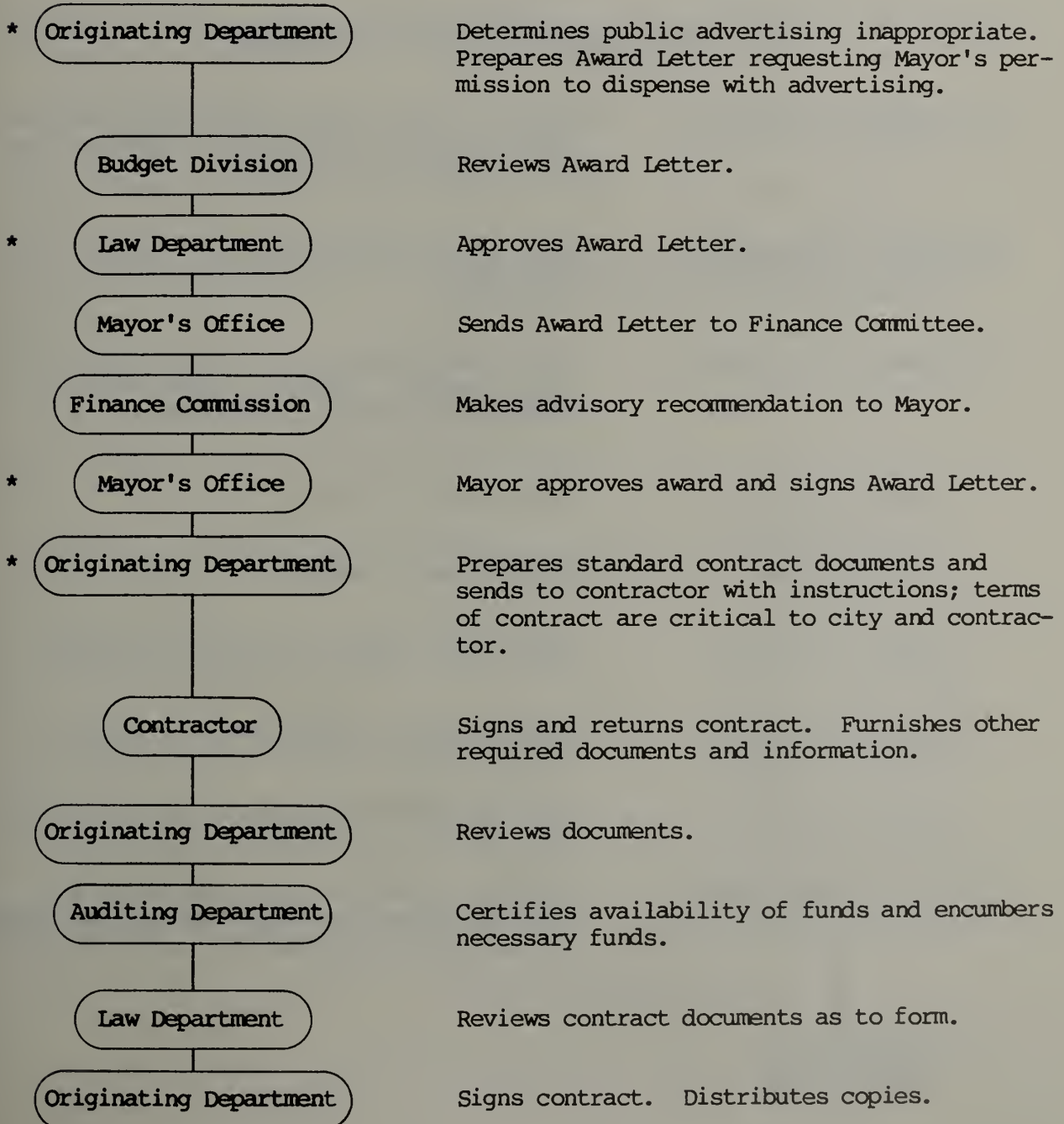


Appendix 7

CONTRACTING PROCEDURE: WHAT HAS TO HAPPEN BEFORE A CITY CONTRACT IS SIGNED

- * Stages where considerable discretion exists and where definitive written policy guidance, criteria and procedures and/or top management oversight appear to be very limited or non-existent

Unadvertised Contracts

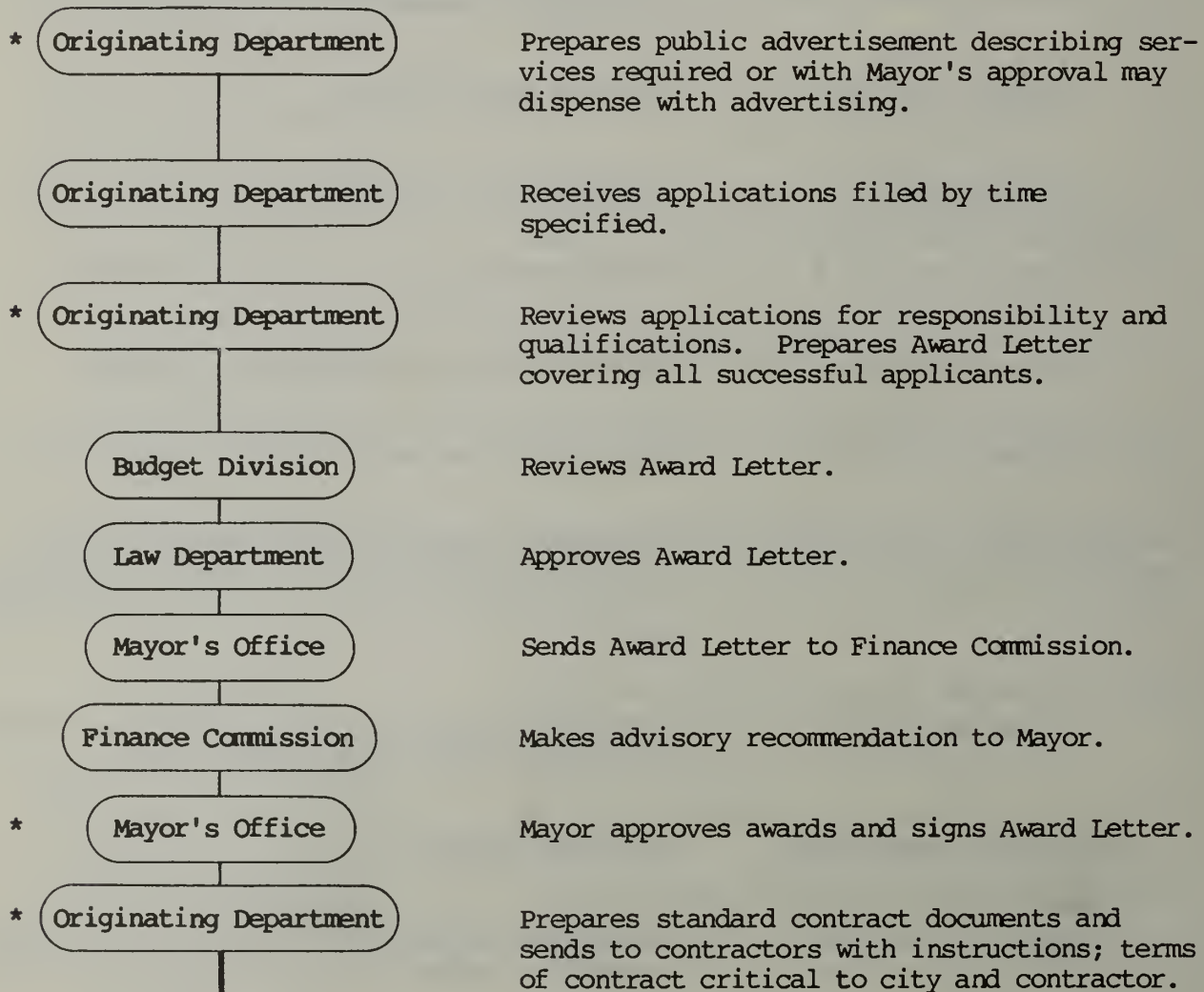


Appendix 8

CONTRACTING PROCEDURE: WHAT HAS TO HAPPEN BEFORE A CITY CONTRACT IS SIGNED

- * Stages where considerable discretion exists and where definitive written policy guidance, criteria and procedures and/or top management oversight appear to be very limited or non-existent

Multi-Vendor Repetitive Services Contracts



Continued on
following page

Continued from
previous page



Contractors

Sign and return contracts. Furnish other required documents and information.

Originating Department

Reviews documents.

Auditing Department

Certifies availability of funds and encumbers necessary funds.

Law Department

Reviews contract documents as to form.

Originating Department

Signs contracts. Distributes copies.

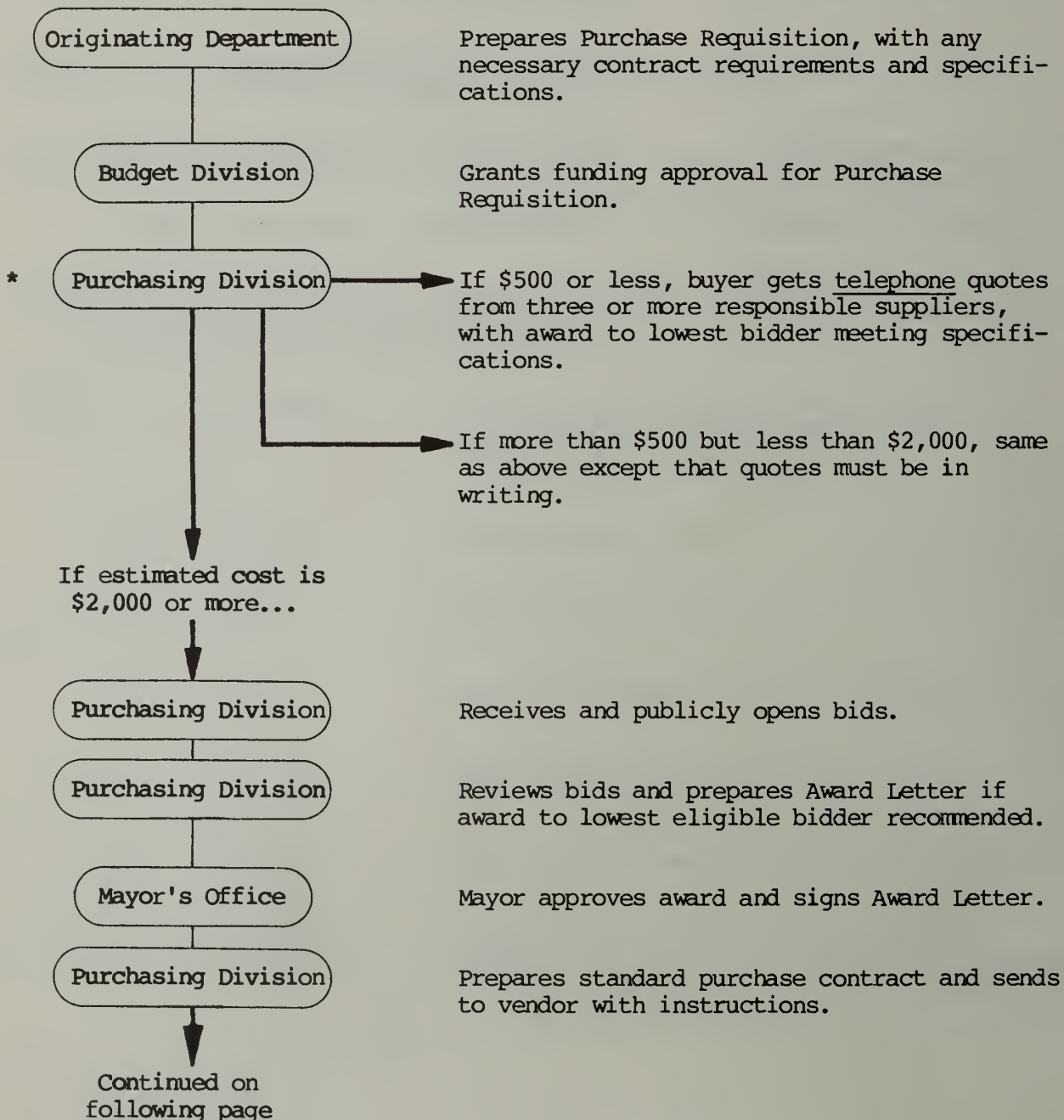
* Originating Department

Issues Service Orders from time to time for performance of actual services required.

CONTRACTING PROCEDURE: WHAT HAS TO HAPPEN BEFORE A CITY CONTRACT IS SIGNED

- * Stages where considerable discretion exists and where definitive written policy guidance, criteria and procedures and/or top management oversight appear to be very limited or non-existent

Purchase Contracts



Continued from
previous page



Vendor

Signs and returns contract. Furnishes other required documents and information.

Purchasing Division

Reviews contract and related documents.

Auditing Department

Approves contract with respect to availability of an appropriation.

Law Department

Reviews contract documents as to form.

Purchasing Division

Signs contract. Distributes copies.

Purchasing Division

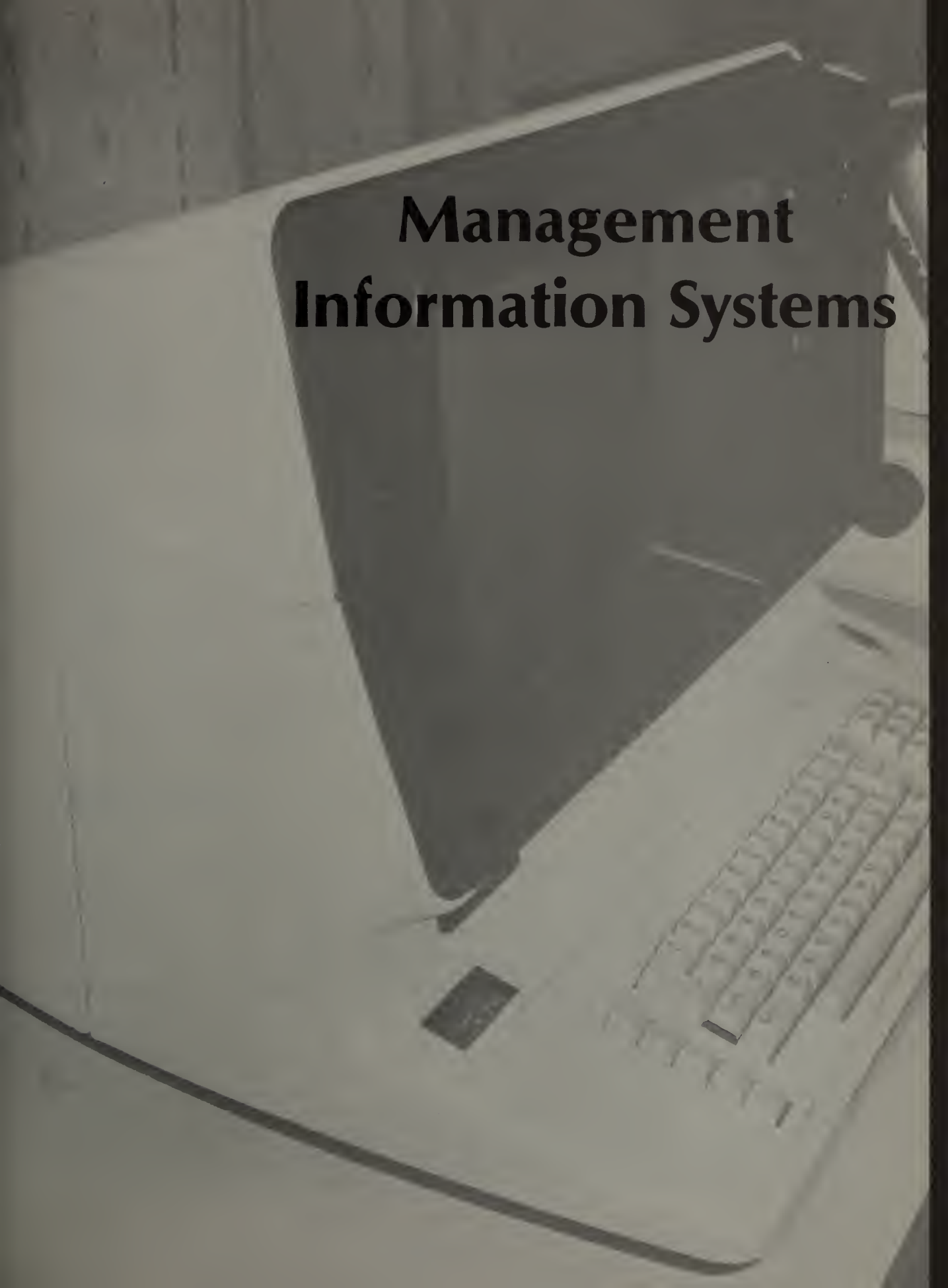
Prepares Purchase Order.

Auditing Department

Encumbers funds. Retains copy of Purchase Order.

Purchasing Division

Sends original copy of Purchase Order, signed by Auditing Department, to vendor with a standard invoice.



Management Information Systems

INTRODUCTION

Computer technology is the invisible sleeping giant of Boston's government. For most Bostonians, it can't be seen, felt or heard directly -- computers do not appear in uniform to direct traffic or in vans to deliver hot meals. But computer technology touches the lives of those who live and work in the City in many ways. Police emergency dispatching, vehicle ticketing, tax billing, and hospital lab testing are among tens of thousands of tasks that are accomplished daily by Boston City employees with the help of computers.

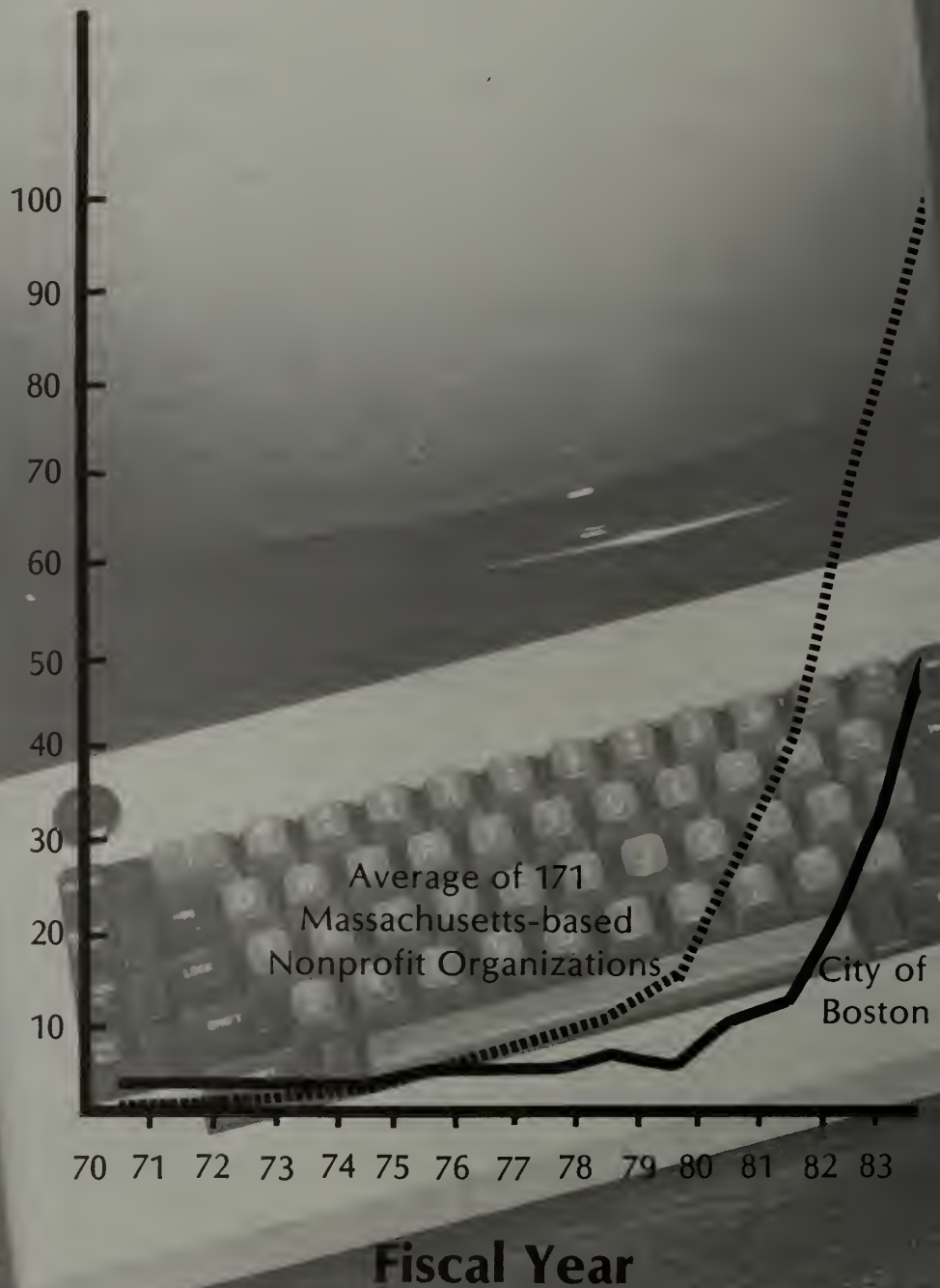
Nevertheless, the costs of moving to computers must be recognized and controlled. In FY 1984, the City will spend about \$15 million for computer systems and services, including hardware, programming, staff and contracted services. This level of spending is estimated to represent an average annual increase of over 30% in the past five years. Tight budgetary control over future expenditures for computer technology is the only way to be sure that this level of spending is really to the City's benefit.

RECENT HISTORY

Past performance in introducing the use of computers into the management of City activities has been checkered. It did not begin until the late 1970s. When it did, it failed to take the necessary time to plan for their successful introduction. As a result, considerable effort will be required to achieve desired automation.

Computers Installed 1970-1983

Number of Individual Central Processing
Units in Mainframe, Mini, and Microcomputers.



Since the late 1970s, the City has undertaken several major computer-related projects. They include:

- o a new parking violation system;
- o a new system to track personnel and make payroll disbursements;
- o several systems to assess and collect property taxes;
- o two major efforts to upgrade the City's main IBM computer; and
- o a multifaceted effort to computerize the City's accounting procedures.

Several of these projects have provided substantially improved controls and have boosted the City's revenues. However, all have provided, through trial and error, an expensive education in the use of computers. Computer technology has costs as well as benefits, including dollar outlays and staff morale problems.

In 1980, despite the fact that the MIS Department operated a large IBM computer, the City's accounting was being done on a 1960s vintage bookkeeping machine. Vendor payments, personnel records, property assessments and tax bills were entered essentially by hand. Some line departments, including Treasury, Health and Hospitals, and others, maneuvered to buy their own computers or contract with outside service bureaus. The resulting computer system was one which was costly, fragmented, and over which the Mayor's Office had little control.

However, in September 1981, an Executive Order of the Mayor established the position of Director of City Management Information Systems, centralizing (at least on paper) the authority and responsibility "to direct, supervise, and plan all data processing activities for the City of Boston."

The Director -- who was also to head the MIS Department -- was responsible for developing a comprehensive plan to upgrade and integrate the use of computer technology in the City. The Mayor assigned this task to a veteran City data processing professional. In June 1982, the MIS Department released a five-year plan, which it refers to as its Five Year Migration Plan. This document was, at the time, a giant step forward in articulating computer priorities for the City. It inventoried computer systems, services and expenses. It evaluated the various options for purchase of and control over hardware ("migration" refers to the phased upgrading of the use of computer technology by the City). And it outlined an ambitious program for cost-saving and system development.

Unfortunately, there has been little resemblance between the plan and actual events since 1982. First, the MIS Department failed to follow a number of its own key recommendations in a timely manner. Second, the plan lacked effective means of implementation. Third, proposed cost savings have not been realized. For example, the main computer in the MIS Department was running in 1982 at a peak of about 50% capacity, but in 1983 the Department abandoned it for a new IBM model four times as powerful. Finally, the plan itself was incomplete. Several key computer projects then underway in the City were given insufficient attention; for example, the multimillion dollar project to process parking tickets was barely addressed. The plan has, in any event, become obsolete, leaving to the new Administration the responsibility of charting new directions for the future. The four case studies that follow hold clues as to how decisions were made in the past as well as lessons for the future.

COMPUTERS IN THE CITY

Parking Ticket Collection

The introduction of computers has led to a complete overhaul of the procedures for collecting parking tickets. Before the overhaul, less than 20% of all tickets were collected, and annual revenues from tickets were well under \$10 million. Since the overhaul, collection rates have approached 50%, with annual revenues in excess of \$20 million.

The introduction of computers was facilitated by a transfer of collection responsibilities from the Boston Municipal Court to the City, which began in early 1981 and was completed in March 1982.

The City MIS Department provided limited assistance to the Court prior to the transfer. However, beginning in May 1981, the City contracted with a service bureau to prepare master lists of tickets and to maintain records of collection activities by the staff of the newly created Office of the Parking Clerk.

In July 1982, the Office contracted with Datacomm to carry out a package of services. Under the contract, which has been extended to June 30, 1984, Datacomm:

- o logs in all tickets within 48 hours (about 7,000 per day);
- o matches ticket data with Registry of Motor Vehicle files and data banks of other states (1/4 of all tickets issued are for out-of-state vehicles);
- o processes receipts in cooperation with State Street Bank;

- o sends out dunning notices to overdue accounts;
- o maintains a list of Denver Boot-eligible vehicles;
- o provides terminals and printers to allow access to the Datacomm data base.

Datacomm has automated parking ticket collection for other cities. It appears to have established itself as the predominant vendor in this specialty. Although the contract is expensive -- total income to Datacomm in FY 1984 is expected to exceed \$4.5 million -- only one other firm submitted a bid last summer when the Parking Clerk asked for competitive bids.

Highlights of Boston's new parking ticket collection program include:

- o earns over \$20 million per year;
- o annual take has tripled since pre-1982;
- o 1.6 million tickets issued in FY 1983 -- 95% in downtown Boston;
- o 3 out of 4 tickets issued to non-Boston residents;
- o total due to City now -- \$70 million.

Computers in Assessing

Since the early 1970s most political jurisdictions have used computers as key tools in professionalizing property assessment. Computer-Assisted Mass Appraisal -- CAMA -- systems have become increasingly more powerful, reliable and affordable. It is inconceivable that a City the size of Boston would be able to maintain legally defensible property assessments without a computer to perform key func-

tions. Yet until the early 1980s the City's assessing procedures were almost entirely manual. Data on over 100,000 parcels was recorded by hand or typewriter. The procedures were vulnerable to error, delay, and abuse -- as judicial decisions, academic studies, and professional audits have concluded.

A computer can help in many ways. It can make numerous checks on the quality of the data collected in the field: for example, flag a record showing a five-floor house with one bathroom, or highlight for a field worker recent sales of properties he or she has reviewed. It can also compute proposed assessments using a program that logically compares each assessment to all other assessments, thus ensuring a modicum of consistency. In addition, a computer has enormous flexibility to prepare reports for a variety of purposes, including taxpayer reviews, court defenses, and assessment projections.

For at least three years the City, through the specially created Office of Property Equalization (OPE), tried to acquire such a computer. These years present a checkered history of expensive on-the-job training.

In December 1980, OPE requested bids from vendors for a CAMA system for the City's upcoming 100% revaluation program. After reviewing eight bids, it selected a vendor and, in June 1981, signed a contract.

The contract stipulated that the vendor was to deliver a working CAMA system by the summer of 1982, at a cost not to exceed \$145,000. City documents indicate that OPE subsequently awarded the vendor a \$1,153,000 contract for work through January 1983. However, according to the City Assessor, the computer system contracted for was not used

for the 100% revaluation, and the Department has since terminated all business with the vendor.

In May 1983, the City and the State Department of Revenue, which oversees municipal assessments, signed a formal memorandum in which the signatories agreed that the "City's CAMA system has to date been unable to generate values which meet the minimum standards, statistical and otherwise, set forth in guidelines published by the Department of Revenue." They also agreed that the City would acquire and use a satisfactory CAMA system to help generate entirely new assessments.

The City and the State are now in the process of deciding how to install a new CAMA system: The Assessing Department is starting up an acquisition project, while the State is hiring a consultant to monitor the City's progress. Meanwhile, the Assessing Department's computer, on which the CAMA system is presumably to operate, has been brought within the operational control of the MIS Department.

Personnel/Payroll System

The City's first comprehensive professional audit triggered a recommendation in August 1979 to create a new centralized data bank for all City workers. In the language of the auditors,

A new personnel system is being designed and implemented and the conceptual design of an integrated EDP payroll/personnel system has been conceptualized for some time...A new EDP payroll system should be designed and implemented...Such a system should be capable of being interactive with the personnel and appropriation accounting systems to provide effective position and budgeting controls.

In other words, stop talking about a system and start building one.

In June of 1981 the same auditors dusted off their recommendation and submitted it again:

We continue to recommend the design and implementation of an integrated EDP-based payroll/personnel system... We are cognizant of the City's recent focus in this regard.

At the time the auditors submitted this reminder, the City was processing over 600 payroll runs per month. The names on the runs were not being merged. The total number of individuals paid by a specific department was not known. Nor was key personnel data, such as accrued vacation and sick time, kept centrally.

The "recent focus" noted in the August 1981 report was a decision by the Administration to contract out for a pre-developed, or packaged, personnel/payroll system. A request for proposals for a system to collect this data went out in March 1981. While the MIS Department reviewed the bids, it contracted with a consulting firm to install quickly a "summary" payroll system on the MIS Department's computer. The system, installed in July 1981, was a "stopgap" measure to allow the City to have a single list of persons receiving paychecks.

The review of package systems ended with a request by the MIS Department that it itself be allowed to design the system from the beginning, using MIS Department staff and consultants. The leadership of the department was anxious to prove that its staff could deliver on a high visibility project. Its request, accepted and implemented by the Administration, was a turning point not only for the

management of the City's work force but also for the MIS Department.

Departmental staff and consultants prepared an initial version of a permanent system and had parts of it operating by July 1982. Since then, according to the City Auditor's Office, every person receiving a paycheck has had his or her record on a single data bank, and all payrolls have been checked against the data bank prior to their release.

The MIS Department makes changes to the system on an ongoing basis. The City's independent auditors made a detailed inspection in 1982, in which they pointed out the areas in which improvements were needed. The system currently works well in certain respects; for example, responding to on-line inquiries about individual employees, and producing employee rosters on short notice.

However, the system does not log attendance data, and the accrued sick and vacation information in the data bank is viewed as unreliable. Nor does it carry Health and Hospital personnel data. This data is handled by a service bureau at an annual cost in excess of \$200,000. These shortcomings illustrate the two steps forward, one step back nature of the innovation in the computer systems: a system is introduced to solve some pressing remedial problems, but is not fully exploited because the data collection is flawed, or because major departments don't use it. This important system will require continuous monitoring, technical adjustments, and visible sponsorship from the highest levels of the Administration for some time to come.

SETTING COMPUTER PRIORITIES

Advice at the Top

There is an essential and increasingly acknowledged relationship between the political processes by which City policy is set and the computer technology which is required to implement that policy. For example, in order to process the property tax refunds ordered by the Court in Tregor v. Assessors of Boston, the City is required to use computers. And certain Mayoral directives, such as personnel hiring guidelines and spending freezes, are not enforceable in the absence of automated personnel and financial management systems.

The new Administration will need to create and institutionalize this source of advice, as it does not exist presently within City Hall. The MIS Department is itself a contender for resources and computer activity because of its own natural concern with maintaining at least its current level of staffing and operations. The City Budget Office has developed no noteworthy expertise in computer technology. As a result, it is unable to provide independent, internal review of proposals regarding computer technology presented in annual budget requests. Furthermore, the City has no formal mechanism for monitoring the development of multi-agency and multi-year systems, and they are difficult to track through the annual budget process. One way to create this source of advice would be to appoint a full-time Special Assistant for Information Systems reporting to the Director of Administrative Services.

Computer Resource Planning

The new Administration has an opportunity to correct deficiencies in the City's current procedures for prioritizing the resources assigned to computers. Every budget for spending on computer technology reflects tradeoffs between competing line items -- staff, programming of new applications, updating old applications, specialized systems software, hardware, communications, and contracted maintenance. The Five Year Migration Plan, which was designed to give some overall resource planning guidelines, is now obsolete. Much of the recent spending on computers was barely mentioned in the Plan: for example, office automation equipment, which has cost the City about \$1.5 million, the new MIS Department IBM computer (a \$2.5 million item), and an \$800,000 mapping system. Nor did the Plan envision that millions of dollars would be spent on custom-developed programs for the City Auditor, the School Department and other departments.

However, a new, more credible plan cannot be created overnight. The following tasks need to be undertaken first:

- o Inventory resources. Find out what equipment, software, personnel and contracted resources are being assigned today.
- o Inventory the current backlog of work in progress to upgrade old systems or acquire new systems. Do a careful accounting of the real costs of these projects.
- o Set up a planning mechanism to focus on the most important issues -- as defined by the Mayor's programmatic priorities, statutory mandates, and budgetary constraints. Lend support and visibility to the planning team.

Managing Computer Projects

One of the early challenges of the new Administration will be to gain an indepth understanding of how City agencies are managing computer projects. It can then be more confident of harnessing the computer to meet its objectives. For every use, or application, of the computer -- paying bills, tracking personnel, appraising property -- the City acquires a combination of hardware and software. It will be necessary to define precisely what is required, choose among alternative approaches, negotiate contracts, and install, test and operate the system. Bringing on-line a single application may require a project effort measured in many man-years and an implementation plan with hundreds of individual tasks.

Some of the most important application acquisitions in recent years (each costing over a million dollars) include the property appraisal system, the personnel/payroll system, the parking ticket system, the Health and Hospitals system, and the continuing effort to upgrade financial controls in the School Department.

Previously, no formal City-wide roadmap for planning, budgeting, supervising and reporting on projects was issued. Nor did the important computer-based agencies, such as MIS and the City Auditor, create such roadmaps for their internal use. This means that the new Administration will not find a useful inventory of current computer projects, but will need to create one. Nor will the Administration easily discover how much these projects have cost to date.

The Administration may therefore have to develop a complete set of standards for managing computer projects. By establishing practical rules and assuming coordination of the most important projects, the Administration will be better able to harness the computer to meet its own priorities.

Recommendations for the new Administration:

Project Plans and Budgets--Computer projects do not appear to undergo a formal process of financial review by the Budget Office, or a technical review by the MIS Department. The result is that there have been budget overruns in excess of 500% for some projects.

One step toward better project control would be to require departments to submit project plans, thus ensuring a minimum level of independent review of those plans. This step would permit at least certain questions to be asked about the merits of the project: Are the project expectations realistic? Has the best case been made for undertaking the project at the proposed time? Who will be accountable for project management? Are the project budget and project timetable realistic? These are the questions for which the Administration will want answers for all projects that are pending or in progress.

Another step towards better overall control of computer expenses, which are growing at an extremely high rate, would be to require departments to submit annual computer budget requests that break out their computer expenses into industry-accepted categories. The departments would thus have to show how much they expect to spend on new system projects as compared to projects to maintain old systems, contracted services provided by computer vendors, contracted programming, and contracted planning consultation. Budget

forms used today lump computer costs into meaningless aggregates.

Balanced Assessment of Alternatives--The City can substantially improve its track record by making balanced, objective assessments of all the logical options in computer systems before selecting among them.

Growth in computer systems can usually be handled in at least two of the following ways: custom programming of software to run on a previously installed computer, purchase of packaged software to run on either the current or a new computer, a contract with a timesharing firm to provide application via phone link, or a contract with a service bureau to provide application by exchange of physical documents.

The new Administration may want to consider how it can provide internal technical oversight to ensure that all logical alternatives are studied. If a balanced assessment between alternatives is made, the odds are improved that the true costs and benefits of the proposed application will be better known, and that the implementation schedule will be more realistic.

Tighten Up the Contracting Process--As of December 1983, the City had many contracts outstanding for the procurement of computer services, valued individually from several thousands to millions of dollars. As a result, there has been no consistent, City-wide oversight given to these contracts to provide quality control.

The City spends over \$2 million a year on the purchase of software packages and custom programming alone. Complex, time-consuming and risk-prone ventures are common,

but as yet no office has City-wide authority to oversee the negotiation and monitoring of contracts. Some of these contracts involve so many extensions and revisions of original work plans that they effectively become open purchase orders. For example, Department A may be serviced by a consultant originally hired to work for Department B, under a contract signed years before. Or, the total sums expended under a contract may be 500% to 1,000% of the originally agreed-to amount.

Topping anyone's list of possible improvements is sharper oversight and technical assistance by Corporation Counsel and the MIS Department for software acquisition projects costing more than \$25,000. Also, payment for services should be tied to the delivery of well-defined projects, not simply to the expenditure of time. If the project is complex and subject to contingencies, points for full-dress project reviews by people other than those engaged directly on the project should be built into the service contract. Leading candidates for improved contractual controls include the financial management system and the property appraisal system.

Time Is Running Out

The inability of the City to establish City-wide priorities and project management discipline has led to time pressure in meeting the City's critical needs. Two examples are worth examining briefly.

Parking Ticket Processing--The City now spends about \$4 million a year for outside processing of parking tickets. A consultant to the City has estimated that processing the tickets on the MIS Department's computer could

save the City close to \$2 million a year. If the City wishes to have its own in-house system in time to realize savings in the FY 1985 budget, a major concentration of MIS Department resources will be required.

Property Revaluation--Boston's ability to obtain timely certification by the Commonwealth of its revaluation of property is critical to the City's fiscal stability. The Memorandum of Understanding signed by the Commonwealth and the City on May 31, 1983, requires that the City have a computer-assisted mass appraisal "...fully operational and...implemented on or before June 30, 1984." Today, fewer than six months of the original 13 months remain to meet this mutually agreed-upon requirement. Yet, the City has not even issued a request for proposals to qualified vendors.

AN AGENDA FOR THE NEXT SIX MONTHS

Listed below are major computer planning and management issues which will arise within the first 100 days of the new Administration and may require prompt decisions.

1. MIS Department Review

Key concern: adequacy of departmental management controls.

Key persons to contact: MIS Department staff, user departments.

(1) Inventory all hardware and analyze usage. (2) Analyze workload of staff. (3) Review organizational structure. (4) Review planning policies. (5) Review priorities for projects. (6) Review project management practices. (7) Make changes where required in equipment, staffing, structure and practices.

2. Budget Office MIS Oversight

Key concern: adequacy of procedures and staff to review FY 1985 computer technology budget proposals.

Key persons to contact: Budget Office personnel.

(1) Analyze current practices regarding computer technology budgets. (2) Analyze staffing requirements. (3) Make changes where required.

3. Computer Contracts

Key concern: adequacy of controls over contracts (City-wide).

Key persons to contact: Corporation Counsel, City Auditor.

(1) Inventory and review current computer technology contracts. (2) Establish procedures for ensuring specification of deliverables, and reimbursement conditioned upon delivery.

4. Parking Ticket System

Key concern: adequate control over computer costs.

Key persons to contact: Parking Clerk personnel.

(1) Clarify Administrative Service's responsibility for parking ticket system. (2) Do joint review of computer operations.

5. Assessing Department CAMA System

Key concern: credible project controls over CAMA acquisition.

Key persons to contact: City Assessor, MIS Department, liaison with City Assessor.

(1) Clarify Administrative Service's responsibility for CAMA system. (2) Review Memorandum of Agreement with Commonwealth re: CAMA. (3) Do joint review of agreement to run Assessing Department's computer. (4) Do joint review of CAMA project management. (5) Make recommendations to ensure effective project management.

6. Financial Management System

Key concern: MIS Department's responsibilities for development and operation of system.

Key persons to contact: City Auditor, MIS Department liaison with Auditor.

(1) Clarify Administrative Service's responsibility for the Financial Management System. (2) Do joint review of status of system in operation (personnel/payroll, accounts payable) and in development (appropriation control, general ledger, purchasing). (3) Inventory MIS Department involvement in system (programming, hardware, etc.). (4) Develop plan and budget for providing future services.

7. Health and Hospitals System

Key concern: Understanding of computer requirements and options.

Key persons to contact: Director of Health and Hospitals, MIS Department liaison to Health and Hospitals.

(1) Clarify Administrative Service's responsibility for Health and Hospital computer system. (2) Do joint review of systems in operation and in development.

8. School IBM Computer

Key concern: continuing incompatibility between School and City IBM installations.

Key persons to contact: School Department officials, MIS Department liaison with School Department.

(1) Clarify City-School MIS relationships. (2) Do joint review of system development projects supported by MIS Department. (3) Decide whether and how these projects should be supported in the future. (4) Do joint review of computer interface requirements. (5) Decide whether, when and how to make interface improvements.

APPENDIX A

INVENTORY OF COMPUTER SYSTEMS

No complete, continuously maintained, City-wide inventory has ever been undertaken. Therefore, what follows is an estimate only of Boston's present investment in computer technology. The City currently owns about 15 large and medium-sized computers and between 30 and 50 smaller systems. It has entered into service bureau contracts in excess of \$1 million. Roughly 200 employees are engaged on a full-time basis in computer management. They are assisted by consultants who are paid through approximately 50 contracts.

The total cost of using computers was estimated in FY 1982 to be \$8.5 million, allocated among nine departments including the MIS Department. Today, annual expenses are probably close to \$15 million, as many more departments are incurring computer-related expenses.

Management Information Systems (MIS) Department

This department has the largest staff dedicated to computers: 75 full-time employees plus consultants, the most powerful computer, and the broadest scope of computer activities. It is located within the Administrative Services Department, but its primary function is to service other departments, such as Personnel, Auditing, and Treasury. It services its many user departments mainly on its IBM computer -- a 3081-D, one of the largest of IBM's products. The 3081, which was installed in late 1983, is four times more powerful than the 3033 it replaced. The 3033 was installed in 1981 to replace a 370.

Also subject to the Department's control are several other computers which are dedicated for use by other departments. These include the computer of the Collector-Treasurer, the Assessing Department's computer for property assessment, and a recently purchased \$800,000 system to prepare City maps.

The MIS Department actually controls about one-third to one-half of the City's total computer operations. Other departments with major computer budgets are described below.

Office of the Parking Clerk

This office is responsible for the collection of parking violation fines. Since the Office's official opening in 1982, it has relied upon a service bureau for processing of parking tickets. As is typical of service bureau arrangements, the servicer uses its own equipment and does not operate on City premises.

School Department

The Department owns a mid-sized IBM computer (4341) in its central headquarters, as well as numerous mini-computers and personal computers located at school sites.

The School Department and the MIS Department have selected different operating systems for their respective IBM computers. (An operating system is a master program that executes the commands of the individual application programs.) As a result, the programs stored on the two computers cannot easily be shared.

Health and Hospitals

Boston City, Mattapan and Long Island Hospitals have contracted with a service bureau to provide a wide array of computer services. The servicer processes most of Health and Hospitals' patient bills and payroll and accounting records. Boston City Hospital also owns several computers that are dedicated to specific medical functions, such as reporting lab results.

Police Department

One of the first City departments to invest in computers, the Police Department currently owns several IBM and Data General computers. The IBM installation is designed to communicate easily with the MIS Department's IBM computer. The most demanding function of the Department is police dispatching; the computers are also used for numerous specialized tasks.

City Auditor

The City Auditor uses the MIS Department's IBM computer to process its accounts payable, payroll, general ledger, and other accounting tasks. It does not own any computer equipment except for a word processing system. The computer expenses of this Department, which include personnel and consultant expenses, have not been estimated for this report.

Personnel Department

This department uses the MIS Department's computer to process its personnel records. Its computer expenses (personnel and consultants) have not been estimated for this report..

Assessing Department

This department inherited the Digital Equipment computer (VAX 11/780) owned by the Office of Property Equalization when OPE was dissolved. The computer, recently transferred to the MIS Department for day-to-day operations, is used for property records and revaluation. The Assessing Department has retained its staff of programmers.

Collector-Treasurer

The Collector-Treasurer owns and operates a Digital Equipment VAX 11/780 to process the recording of the City's receipts. The computer is also used by the Boston Redevelopment Authority and Public Facilities.

Neighborhood Development and Employment Agency

This federally funded agency operates a federally owned Digital Equipment PDP 11/70 computer, which processes the participant and payroll records of federal jobs programs in the City.

Boston Public Library

BPL has one large Digital Equipment computer and one small IBM computer to help in circulating and cataloging books, and in accounting.

APPENDIX B

INTEGRATED FINANCIAL MANAGEMENT SYSTEM: HISTORICAL HIGHLIGHTS

1978-1979	Coopers and Lybrand, City's auditors, document numerous problems with financial controls.
Jan. 1981	City Auditor contracts with consulting firm to plan and help implement a comprehensive automated financial system.
July 1981	Consultants install packaged general ledger system on MIS Department's IBM computer; bookkeeping machine is retired.
July 1981	Automated system to monitor the City's 13,000 vendors is installed.
Summer 1981	City decides to design its own personnel/payroll system. Stop-gap system installed to provide first 100% count of persons on payroll.
Spring 1982	City decides to design its own accounts payable system.
July 1982	City-designed personnel/payroll system goes into operation on MIS Department computer.
Fall 1982	City-designed accounts payable system goes into operation on MIS Department computer.
1983	Continuous modifications are made to general ledger, personnel/payroll, and accounts payable system.
Aug. 1983	School Department launches project to upgrade its appropriation control and accounts payable system, to run on its own computer.
Nov. 1983	Consultant advises City Auditor to purchase or create new appropriations control system.

Personnel

Personnel

INTRODUCTION

There are approximately 21,000 City employees whose combined wages and fringe benefits constitute 70% to 75% of the City's operating budget.

During the Proposition 2-1/2 crisis, the City laid off 2,700 employees and "saved" \$39 million. Since that time City employment has continued to rise:

as of January 12, 1982 the City employed	18,958
as of January 11, 1983 the City employed	20,308
as of June 30, 1983 the City employed	21,113

(See Appendix A for 1983 hiring and attrition figures.)

SOURCE: Boston Municipal Research Bureau (BMRB) payroll count

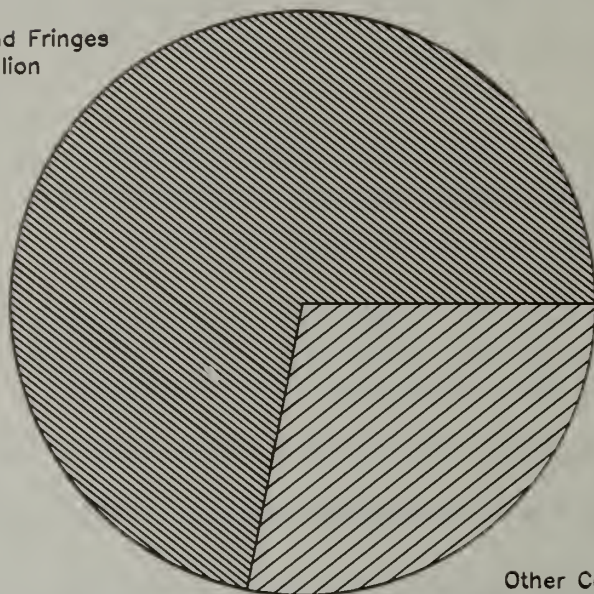
As personnel costs are such a large proportion of the budget, force reductions are one way to reduce or eliminate the deficit. The BMRB has in fact recommended a reduction of 850 City employees by June 30, 1984.

This chapter examines the City's personnel policies and practices. After providing a brief background on the state-level civil service system applicable to Boston and, in particular, the rules relating to provisional employees, the chapter reviews in depth the City of Boston hiring process, affirmative action rules and figures, and employee compensation plans. The report also includes a benefit-by-benefit analysis of non-wage employee compensation and a review of the City pension system. Whenever possible, the chapter attempts to distinguish between the City's "theoretical" personnel policies and the actual municipal practice.

Personnel Costs' Share of Boston's FY 1984 Activity Budget

Total = \$421.7 million

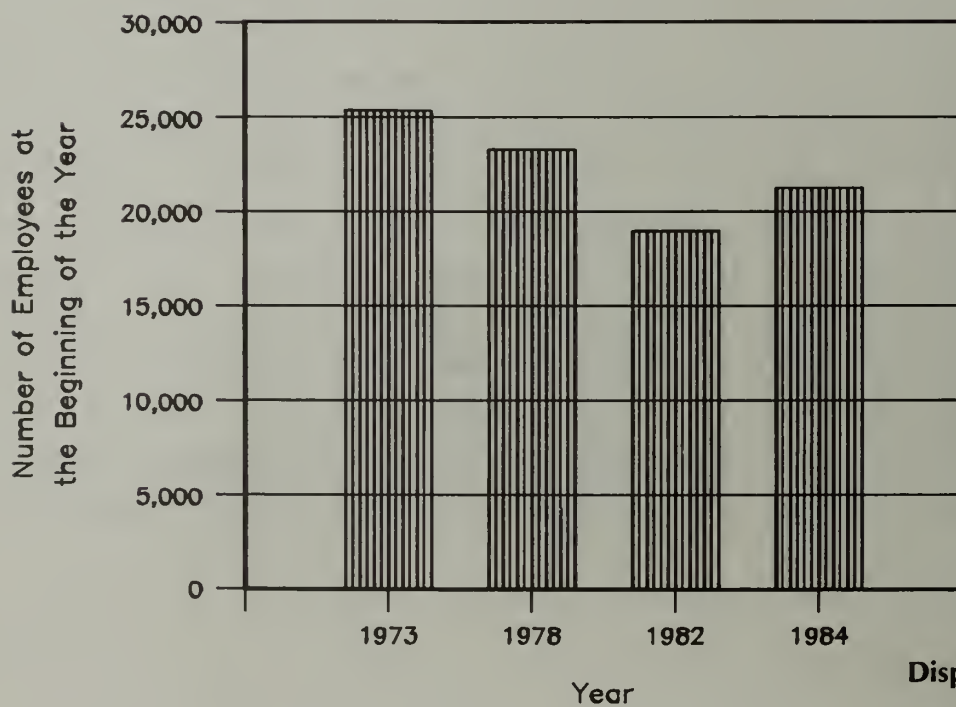
Salaries and Fringes
\$304.6 million



Other Costs
\$117.1 million

Display 1

Number of City Employees



Display 2

ORGANIZATION

The Personnel Division of the Administrative Services Department is comprised of six units: the Administrative Unit, which maintains statistics and records and oversees Civil Service rules and regulations; Position Control; Recruitment and Referral; Affirmative Action; Employee Development and Assistance; Classification and Compensation. Although it is a division of the Administrative Services Department, the Group Insurance or Hospitalization/Insurance Plan has a separate budget. Each City department has its own personnel officer. The duties assigned to these officers vary. Some personnel officers are full-time and perform most personnel-related functions, while others are part-time and exercise only payroll-related responsibilities.

RESIDENCY

Employees of the City are required to live in Boston. With the exception of department heads, who have six months' leeway, the residency requirement applies as of the starting date of employment. Initial responsibility to ascertain residency rests with the department head. Thereafter, the employee has responsibility. Each February, employees sign a card certifying they live in Boston.

The lone exception to this rule concerns persons employed by the City at the time the rule was enacted. A grandfather clause exempted them from coverage, but if such an employee is promoted, this clause no longer preempts application of the residency requirement.

CIVIL SERVICE

This year is the centennial anniversary of the Commonwealth's civil service law, which applies to both State and municipal personnel systems, including Boston's. The law and the regulations under which it has been implemented have evolved since the legislation's initial enactment. The most recent civil service amendments were contained in the Civil Service Reform Act of 1981, which became law on January 4, 1982. Under the law, as amended, positions with various state agencies as well as with cities and towns of the Commonwealth are designated civil service positions, which are subject to the requirements of the civil service law and rules. The law specifically exempts certain positions from coverage.

Provisionals and Section 26

A main criticism of the Boston civil service system is the lack of eligible lists from which appointments and promotions can be made. Many eligible lists have expired and few examinations have been offered in recent years. Consequently, thousands of people provisionally appointed and provisionally promoted are filling permanent and temporary positions. Figures for the City of Boston show over 1,000 provisional appointees and over 500 provisional promotees as of November 4, 1983.

One approach used by the state legislature involves exempting positions from civil service as discussed above. The other approach, Section 26 of the Civil Service Law, provides for examinations for certifying eligible provisional employees to permanent civil service positions. First, to be eligible for certification, provisional appointees must:

- o be currently employed and occupy a civil service position on a provisionally appointed or promoted basis;
- o have served on provisional appointment from December 1, 1980 to June 1, 1981.

To be eligible for certification, provisional promotees must:

- o have been serving on a provisional promotion on January 4, 1982;
- o have had continuous service for the two years immediately preceding, i.e. since January 5, 1980.

Upon passing an examination which demonstrates qualifications, the employee shall be certified in preference to all others for permanent appointment to the title. The City is responsible for submitting the list of those employees eligible as "Section 26 Designees." In both cases, the position title occupied on January 4, 1982 is considered the eligible title for the Section 26 examination procedure.

A two-step process for certification follows. The appointing authority must certify that the provisional appointee or promotee has met the statutory dates of eligibility. The employee will then be declared a "Section 26 Designee" and must subsequently pass an examination for the position title occupied provisionally on January 4, 1982.

While the statute and guidelines outlined above appear clear, a good deal of confusion actually surrounds these certifications of eligibility. Last fall, the City's Personnel Division requested each agency to compile a list of eligible employees. These lists were sent to the State Department of Personnel. Apparently, little effort was made

by either personnel office to check these lists against records. In a number of departments reviewed during December 1983, many supervisors and department heads had requested Section 26 designation for employees who did not appear to meet the eligibility dates. As summarized in Table 1, only 31% of the Section 26 employees appeared to meet eligibility requirements.

TABLE 1
SUGGESTED SECTION 26 DESIGNATION
(SELECTED DEPARTMENTS, DECEMBER 1983)

<u>Division</u>	<u># of Empl.</u>	<u># of Prov. Appts.</u>	<u># of Prov. Promns.</u>	<u># Req. for Desig.</u>	<u>Actual # Eli- gible</u>
Licensing Board	14	12	2	7	1
Law Department	75	57	18	15	7
Treasury	57	22	35	34	16
Assessing	199	158	41	30	4
Veterans	<u>32</u>	<u>13</u>	<u>19</u>	<u>13</u>	<u>3</u>
				99	31

Any new administration inherits employees from the previous administration, most notably those on civil service. This allows for continuity but also creates inflexibility in the system. Retention of all inherited provisional appointees, however, places an unreasonable financial burden on the new administration. The extent of this burden is illustrated by the department personnel figures reviewed in this study. Of the personnel sample reviewed, 60% hold permanent civil service positions at salaries lower than those for the positions they currently occupy, and 40% are provisional appointees. Of those permanent employees, many had been certified by their department heads as eligible for Section 26 designation at the higher salary level. A similar situation exists for the provisional promotees.

Civil Service Examinations

Ideally, the State Department of Personnel Administration gives periodic, open competitive examinations for entry to civil service positions (labor service and professional recruitment are alternative methods of access). Depending upon their experience and education, persons may apply to take examinations for particular job titles. Applicants will be notified of their performance within 60 days of the test date. It may, however, take up to 18 months before a list of persons who passed and are "eligible" for the position is certified. These lists are subject to periodic expiration.

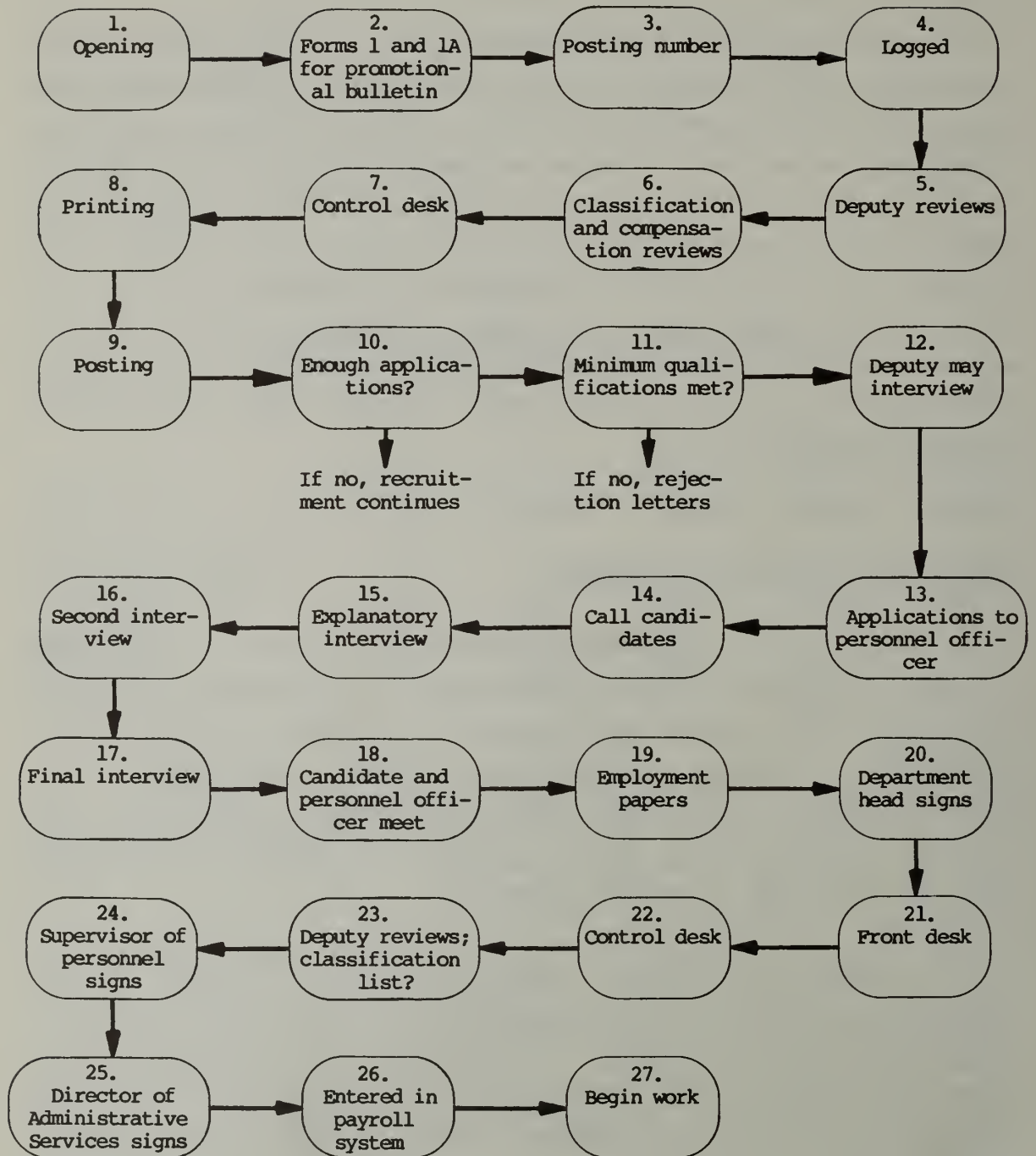
HIRING AND PROMOTION PROCESS

All City departments follow a standard hiring and promotion process, outlined below and illustrated by Display 3, except for Health and Hospitals, Boston Redevelopment Authority, Library Department, School Department, the County, and the Water and Sewer Commission. Emergency employees (hired for up to six weeks) and Mayoral appointees also are excluded from this process.

Step 1-- When a vacancy occurs or when a new position is created, the department head can fill the opening or postpone filling it to save money in the department's personnel budget. The department head cannot transfer this money to non-personnel budget items without City Council approval.

Step 2-- The department personnel officer notifies the Personnel Division of the vacancy by submitting Employment Opportunity Form 1 and Job Posting Information

HIRING AND PROMOTION PROCESS



Display 3

Form 1A, or a Promotional Bulletin. If the department head chooses to make the position open and competitive (anyone can apply), Forms 1 and 1A are used. In a Civil Service department, the position may be restricted to permanent employees in that department, in which case a Promotional Bulletin is utilized. Some departments, such as Public Works, only promote in this way.

The department head's discretion to make promotional positions open and competitive was firmly established in a 1981 arbitration decision. The City had inserted employees into promotional openings in several departments. AFSCME went out on strike. The arbitrator held that the City has a right to open promotional positions to talent outside the department. In the 1981 contract negotiations, AFSCME successfully advocated for the Promotional Bulletin process.

The department head may check a box on Form 1 or on the Promotional Bulletin requesting the Personnel Division's assistance in obtaining affirmative action candidates. While the Affirmative Action Unit's (AAU) role is normally prompted by a department head's request, on occasion the AAU initiates a search.

Step 3--The Personnel Division time-stamps the forms and assigns a posting number.

Step 4--The Control Desk (within the Personnel Division) logs the forms into its tracking system.

Step 5--The Deputy Director of Personnel assigned responsibility for that department confirms that an opening exists. The deputy reviews the forms to ascertain whether

the specified duties and responsibilities are consistent with those approved for the position and whether the salary and stated minimum qualifications are also consistent. The deputy also determines eligible job titles. The deputy assigns a posting date, and sends the forms to the Classification and Compensation Unit.

Step 6--The Classification and Compensation Unit reviews the forms to ensure the job title is valid and reveals enough about the position to inform a potential applicant whether or not to apply.

Step 7--As Promotional Bulletins arrive, they are sent back to the department for posting. Every Friday, the Control Desk assembles open and competitive posters for the Printing Division.

Step 8--Printing picks up the open and competitive posters, prints copies and sends them to all departments.

Step 9--The job is posted on the second Wednesday following its arrival at the Personnel Division. The job is posted for 5 working days (Wednesday 9:00 am to Tuesday 5:00 pm). Open and competitive positions are posted in all departments and in other locations, depending on how wide a circulation is desired. If affirmative action assistance has been requested, circulation includes such agencies as the NAACP and ABCD.

Newspaper advertisements are seldom used. With the Supervisor of Personnel's permission, ads may be placed for technical positions, jobs generating few applications, or positions failing to attract appropriate candidates.

Promotional positions available only to Civil Service employees are posted via Promotional Bulletins. The Bulletin specifies the Civil Service titles eligible for the promotion.

Although written policy dictates that all openings should be posted, exceptions occur in three situations: (1) vacancies where the departing employee had recently assumed the position (not wanting to repeat the hiring process, a department head may call the assigned deputy for permission to contact a former applicant); (2) when the department head wishes to hire an affirmative action candidate and the posting fails to yield a qualified minority or woman; and (3) if the department head is not interested in hiring any of the applicants.

In the latter two instances, recruitment continues. As mentioned, this may include newspaper advertisements. Also, department heads may call Personnel for permission to interview someone they know personally. Initial applicants receive notification after selection is made.

Applications are filed during the five-day posting period. Persons eligible for promotion submit a Form B Application for Promotion to the department head. Open and competitive applications are received only in the Personnel Division. The applicant may include any documents, such as a resume, that could be helpful to the selection process.

Step 10--The deputy assigned to that department, or the personnel officer in the case of Promotional Bulletins, determines whether the number of applicants is sufficient. If not, the deputy asks the personnel officer whether to re-post the position, place newspaper advertisements or solicit affirmative action assistance. Al-

though the City retains "blind" applications, those submitted for no particular opening, it makes no attempt to match such applications with current openings, due to its own shortage of personnel to perform such tasks.

Step 11--The assigned deputy, or the personnel officer in the case of Promotional Bulletins, reviews the applications to be certain applicants meet the minimum qualifications stated in the job posting. Applicants who do not meet the qualifications are notified by letter, and their applications are retained.

Step 12--Applications are forwarded to the personnel officer. Personnel does not interview candidates unless specifically requested to do so by a department head or if a department head has difficulty finding acceptable candidates. If applicable, the Personnel Division administers skills tests.

Step 13--The assigned deputy sends a list of qualified applicants (Form 2) and their applications to the personnel officer. There is no limit to the number of candidates that can be referred.

Step 14--The personnel officer calls each promotional or other candidate to schedule an initial interview.

Step 15--Initial interviews are conducted by the personnel officer.

Step 16--The personnel officer calls back some applicants for in-depth interviews.

Step 17--The department head interviews final candidates. Usually, a final selection is made at this time and the candidate is informed.

A starting date and salary are established at this time. The Personnel Division has asked department heads to start employees two weeks from the final interview in order to allow enough time to process necessary paperwork. While most department heads cooperate, some start employees immediately. In these instances, the department head generally obtains the Personnel Division's approval.

Step 18--After the interview, the candidate meets with the personnel officer, or occasionally with a supervisor, to fill out forms and discuss available fringe benefits.

Step 19--The personnel officer completes the employment papers, which include the Personnel Action Report, W-4 forms, and health and retirement benefits forms. This should be done on the day selection is made, again to ensure a timely first paycheck. However, not all personnel officers process the paperwork promptly, often accounting for delays in receipt of the first paycheck.

Step 20--The department head signs the paperwork and forwards it to the Personnel Division.

Step 21--The Front Desk time-stamps the paperwork.

Step 22--The Control Desk logs it into the tracking system.

Step 23--The assigned deputy determines whether a Civil Service classification list exists. If there were such a list, it would render the entire process up to this point moot. However, this has not been an issue because so few examinations have been offered in recent years. The deputy also reviews the paperwork for accuracy.

Step 24--The Supervisor of Personnel signs it.

Step 25--The Director of the Administrative Services Department, through the Executive Secretary, signs the papers.

Step 26--A personnel assistant in the Personnel Division enters the employee information into the integrated payroll system.

Step 27--The employee begins work on a Wednesday. It usually takes one to five weeks to receive the first paycheck. The average time is three weeks, but there are isolated instances where check processing has taken as many as twelve weeks.

Criteria for promotions are dictated by Civil Service law and collective bargaining agreements, which provide that where ability and qualifications are relatively equal, seniority shall be the determining factor. As of October 1982, attendance statistics must be considered. Discretion to determine ability and qualifications rests solely with the appointing authority, provided the responsibility is not exercised arbitrarily, capriciously or unreasonably. Because the City has no performance appraisal system, except for attendance records, promotion decisions can be highly inconsistent and subjective.

Boston City Hospital (BCH)

The hiring process at Boston City Hospital is similar to the process noted above with two important differences. When a vacancy occurs at BCH, an in-house personnel committee, as opposed to the department head, decides

whether to fill the opening. The other difference occurs after the employee has been hired but has not yet received the first paycheck. At BCH, the policy is to make an advance of money to the new employee after the first week to help through the typical lag time.

Process for Adding and Deleting Positions in Mid-Year

The position control system, or quota system, is a component of the integrated payroll system and helps control position additions and deletions that occur in mid-year and are not reflected in the budget. The process for adding a position in mid-year includes nine steps:

Step 1--The department head determines the need for a new position.

Step 2--The personnel officer completes a Request to Amend Personnel Quota Form and a Form 30, which describes the position, and forwards them to the Personnel Division.

Step 3--The Front Desk in the Personnel Division time-stamps them.

Step 4--A personnel assistant assigns a position control number.

Step 5--The Deputy Director of Personnel assigned responsibility for that department checks the forms for accuracy.

Step 6--The Supervisor of Personnel signs the request forms.

Step 7--The request forms are forwarded to the Budget Division, which determines the availability of funds. If funds are available, the Budget Director signs the forms.

Step 8--The Budget Division enters the change in the position control system.

Step 9--The department receives a copy of the approved request form.

The process for deleting a position, rarely used, is identical except there is no need for Form 30, assigning a position control number and determining availability of funds (Steps 2, 4 and 7).

Creation of a New Job

Occasionally, a department head wishes to create a new job that has not been classified and assigned a grade. The procedure is set forth below.

Step 1--In a letter to the Supervisor of Personnel, the department head requests that a new job be created.

Step 2--The Supervisor of Personnel approves or denies the request.

Step 3--The Classification and Compensation Unit of the Personnel Division composes a job description.

Step 4--The department head signs the job description.

Step 5--The Classification and Compensation Unit conducts a job audit, determines a grade for the position and recommends this grade to the Supervisor of Personnel.

Step 6--The Supervisor of Personnel accepts (or rejects) the recommendation. A letter is written to the Mayor requesting that the job be created and assigned the stated job grade.

Step 7--The Mayor signs an executive order creating the job.

Step 8--Personnel files the order.

Step 9--The personnel assistant receives a copy and changes the records.

AFFIRMATIVE ACTION

The City of Boston has fallen short of meeting its goals for minority representation in the City's workforce. In terms of both the total number of minorities employed by the City (utilization rate) and the total number of minority employees hired in a given year (hiring rate), the minority and female population has not been fully represented. In addition, while procedures exist, there is no official system for handling discrimination complaints filed by City employees against the City.

The City of Boston's policy for affirmative action is clearly stated in a January 1, 1983 Executive Order promulgated by the prior Administration:

It is the policy of the City of Boston to see that each individual, regardless of

his/her race, color, religious creed, marital status, military status, handicap, children, national origin, sex, age, ancestry, sexual orientation or source of income shall have equal access to employment; and to encourage and bring about mutual understanding and respect among all individuals in the City by the elimination of prejudice, intolerance, bigotry and discrimination in the area of employment. (Source: Administrative Services Department: Personnel Division, Executive Order, dated January 1, 1983.)

The Director of Affirmative Action, who is responsible for coordinating and overseeing the City's Affirmative Action efforts, works in the Personnel Division. As stated in the January 1983 Order, the Supervisor of Personnel and the Director of Affirmative Action supervise the following programs and requirements:

- o Department heads and deputy directors are required to attend at least one Affirmative Action Management seminar annually.
- o Each department head must submit to the City's Supervisor of Personnel and the Director of Affirmative Action a personnel utilization analysis for the department and work with them to develop and implement annual hiring goals and timetables.
- o An Affirmative Action Advisory Board, consisting of six voting members who hold regular monthly meetings, must be established by the Mayor. The Board's responsibilities include: (i) reviewing Boston's Affirmative Action policy and progress; (ii) receiving a quarterly report from the Director of Affirmative Action; (iii) monitoring each department's utilization analysis, implementation of goals, timetables and recruiting plans; and (iv) reporting on a semi-annual basis to the Mayor on the Board's activities and findings.

During the past year, however, most department heads have failed to comply with the Executive Order. As recently reported by the Director of Affirmative Action, only one of the numerous department heads attended an Affirmative Action Management seminar. In addition, the Affirmative Action Advisory Board has not met every month as required. In fact, it has met only once since the Order was issued one year ago.

Hiring Policies

The City's Affirmative Action Policy is designed to ensure that the number of minorities and women working for the City reflects Boston's population mix. As shown in Table 2, the City has significantly improved its hiring and utilization of minority employees over the past five years.

TABLE 2

**SUMMARY OF MINORITY EMPLOYMENT:
1979-1983**

	<u>1979</u>	<u>1980</u>	<u>Fiscal Year</u> <u>1981</u>	<u>1982</u>	<u>1983</u>
Minority Hiring Rate	28%	31%	38%	38%	37%
Minority Utilization Rate	18%	19%	21%	23%	25%

SOURCE: City of Boston, Departmental Communication, dated August 2, 1983.

Despite improvement in the City's minority employment, the City has not reached its goals in minority representation (see Appendix B). Of the City's population, 33% are minority and 53% are women. The minority population consists of approximately 22% Black, 7% Hispanic, 3% Asian, and 0.2% Native American. The 1983 minority and female

utilization rates of 25% and 45%, respectively, fall well below the percentage of minority and female representatives living in Boston (Source: Director of Affirmative Action).

To ensure continued improvement in the representation of minorities and women in the City of Boston workforce, the Massachusetts Commission Against Discrimination (MCAD) has developed suggested hiring rates for City departments. These rates depend on the percentage of minorities and women currently employed in a department. These rates seek to ensure that minorities and women are employed equally throughout a department at all salary levels.

According to the City's Personnel Division, since July 1, 1983 eight jobs paying in excess of \$25,000 per year have been awarded. Six of those positions were filled by white males, one by a white female and one by a black female. As of mid-November 1983, only 3.8% of City jobs over \$25,000 were held by minorities and only 8.0% were held by women (see Display 4). This data clearly suggests that the City has been slow to promote minority and female employees to upper management positions.

Discrimination Complaints

The City of Boston currently does not have an official Affirmative Action Complaint Process. An Executive Order on Employment Discrimination Complaints has been in draft form for over a year.

According to the Director of Affirmative Action, an individual wishing to file a complaint against the City must do so through the Equal Employment Opportunity Commission (EEOC) or the MCAD within 180 days of the act of discrimi-

Luscious
PLUMS **Distribution of Employees**
of the City of Boston
Who Earn Over \$25,000 Per Year*

\$ 140 City Departments
Other Than Fire and Police

Total = 505
(12.1% of all
employees)

Women
93 (18.4%)



Minorities
31 (6.1%)

Police and Fire Departments

Total = 828
(20.5% of all
employees)

Women
14 (1.7%)



Minorities
19 (2.3%)

**Does not include
hospital, school or
county employees.*

nation. A summary of 1982 MCAD employee discrimination complaints appears in Table 3. The departments or facilities with the most complaints filed against them include: Boston City Hospital (8), the Fire Department (7), the Department of Health and Hospitals (5), and the Police Department (5).

TABLE 3

1982 MCAD EMPLOYEE DISCRIMINATION COMPLAINTS^a

Complaints	52 ^b
Cases Closed	20
Cases Settled	1
Pending	31

Source: MCAD

a Not including School or County employees.

b Reflects the following complaint classes: race (27), sex (19), national origin (5) and age (3). These figures do not add to the above total of 52 because two complaints fall into more than one complaint class.

COMPENSATION

Compensation plans for Boston employees originate from several sources. City ordinances and statutes establish salaries for certain positions. The Executive Employment Policy Manual governs the compensation of appointed officials and employees of selected departments. For managers in Civil Service departments, the Management Development and Compensation Plan determines compensation. Collective bargaining agreements cover members of collective bargaining units. In addition, the Executive and Management compensation plans incorporate by reference the Rules for Administering Pay Schedule. The extent to which these rules

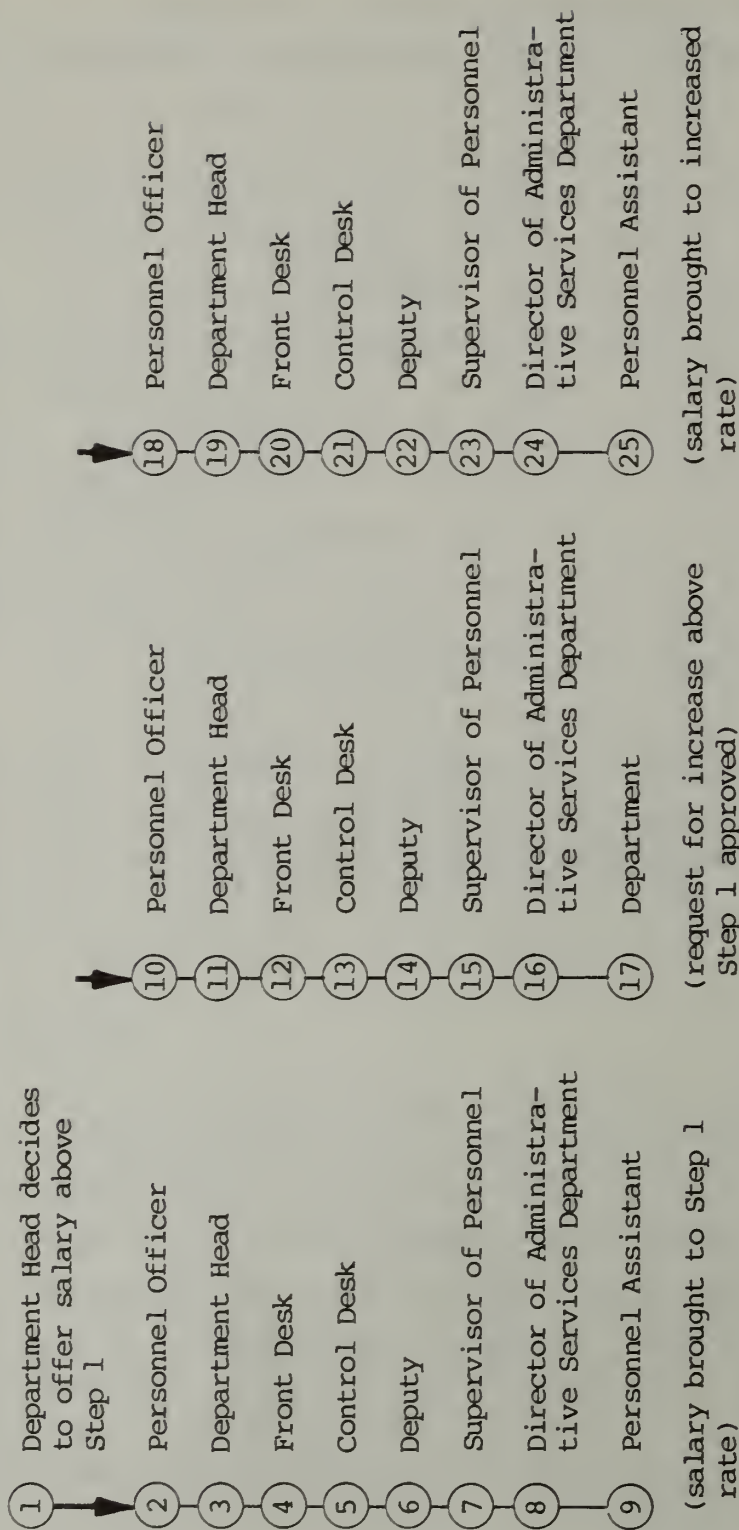
are incorporated into union contracts, if at all, is unresolved, as arbitrators have interpreted contracts differently.

The compensation structure for employees other than appointed managers whose salaries are fixed by ordinance or statute is a grade/step system. The Classification and Compensation Unit of Personnel assigns each position a job grade (e.g., R-14, MM-5) based on a standardized point system called the Hay method. Each job grade has a salary range that is divided into steps. A person at the first step of a job grade earns the minimum salary for that grade. Someone at the highest step makes the maximum amount. Normally, an employee enters a job grade at the first step and advances in one step increments.

In Civil Service departments, the process for raising salaries is known as the "9(f)" process, from Rule 9(f) of the Rules for Administering Pay Schedule. An identical procedure, 15(f), covers the County. The "9(f)" process, which applies to all employees, is outlined below and is diagrammed in Display 5.

Step 1--The department head decides to offer the position at a salary higher than the minimum. This usually occurs at an applicant's final interview. City policy prohibits department heads from promising a higher rate to a prospective employee until approved by the Supervisor of Personnel. Any increase is made retroactive from the approval date to the employee's starting date. In practice, many department heads do not wait for approval. This failure to wait often results in grievances relating to promised, but rejected, increases.

PROCESS FOR RAISING A NEW EMPLOYEE'S SALARY ABOVE USUAL RATE



3 weeks (average)

3 weeks (average)

3 weeks (average)

PERSONNEL ACTION REPORT

9(f) REQUEST

ADJUSTMENT IN COMPENSATION

Step 2--As when filling any opening, the personnel officer completes the Personnel Action Report (PAR) and forwards it with the other paperwork to the Personnel Division. The PAR places the employee at the first step of the job grade.

Step 3--The department head signs the PAR.

Step 4--The Front Desk at Personnel timestamps the PAR.

Step 5--The Control Desk logs it into the tracking system.

Step 6--The PAR is reviewed for accuracy and initialed by the assigned Deputy Director of Personnel.

Step 7--The Supervisor of Personnel signs the PAR.

Step 8--The Director of Administrative Services (by his Executive Secretary) signs the PAR.

Step 9--A personnel assistant enters the salary information into the integrated payroll system. It takes an average of three weeks from the time Personnel receives the PAR to this step.

Step 10--The personnel officer writes a 9(f) request which states the reasons the employee merits a higher salary.

Step 11--The department head signs the 9(f) request and sends it to the Personnel Division.

Step 12--The Front Desk time-stamps it.

Step 13--The Control Desk logs it in.

Step 14--It is reviewed for accuracy by the assigned deputy.

Step 15--The Supervisor of Personnel approves or denies the request.

Step 16--If it is approved, the Director of the Administrative Services Department (through his Executive Secretary) signs the request.

Step 17--A copy of the approved request is sent to the department. Three weeks is the average time elapsed from Personnel's receipt of the 9(f) request.

Step 18--The personnel officer completes an Adjustment in Compensation form and forwards it to the Personnel Division. This form will generate the move from the lowest to the higher step.

Step 19--The department head signs it.

Step 20--The Front Desk time-stamps it.

Step 21--It is logged in by the Control Desk.

Step 22--The assigned deputy reviews the form for accuracy and initials it.

Step 23--The Supervisor of Personnel signs the form.

Step 24--The Director of the Administrative Services Department (through the Executive Secretary) signs it.

Step 25--A personnel assistant in the Personnel Division adjusts the integrated payroll system to reflect the increase. The average time elapsed from Personnel's receipt of the Adjustment in Compensation form to this final point is three weeks.

EMPLOYEE BENEFITS

Holidays

City employees receive 13 paid holidays while most private industry employees receive 10 holidays. Employees may take religious holidays off, but must use their own vacation days for this purpose. Some departments try to reschedule workdays for employees taking the religious holiday. Each holiday costs the City approximately \$1.25 million.

Vacation

On January 1, 1984 any employee who is currently on the payroll and has been continuously employed by the City since June 1, 1983 will be credited with a 1984 vacation of 10 days. Also, employees who work from January 1, 1984 through May 31, 1984 will be credited with their 10 days of 1984 vacation. An employee who leaves the City's workforce, other than one discharged for cause, receives prorated vacation pay in proportion to the months of service since June 1. Employees who have worked 4 years and 5 months before June 1 receive 15 vacation days. Those with 9 years and 5 months service before June 1 and 19 years and 5 months before June 1 receive 20 and 25 vacation days, respectively. The average vacation leave is 3 weeks.

Employees in managerial level jobs receive 4 weeks vacation time after fulfilling the eligibility requirements (1 year in a manager's position). After 19 years and 5 months of service, managers receive an additional week of vacation.

Vacation leave must be used annually except upon approval of the Supervisor of Personnel (1980 memo) and the employee's department head. Some departments do not allow vacation at crucial periods of the year (e.g., Assessing at tax time; Public Works at snow removal time) and these employees are often permitted to carry over vacation time between fiscal years. In the past, managers could carry over their unused vacation time until it was used or they could receive compensation of up to 10 days unused vacation in any one year. This policy was discontinued 2 years ago but was reinstated by the previous administration to give the appointed employees a maximum of six paid vacation weeks (4 weeks that managers receive and 2 accrued over the years). The estimated cost for this vacation time is \$1,735,000.

Sick Leave

Sick leave is accrued at the rate of 1-1/4 days each month of employment, not to exceed 15 working days in a year. A new employee may not charge sick leave or receive sick leave pay until completing 6 months of service and accruing 7-1/2 sick leave days.

Abuse of sick leave time before and after weekends and holidays has been a major problem. Supervisory personnel are supposed to monitor this practice and if a pattern of absenteeism is detected, then the employee is subject to disciplinary action.

Boston's employees averaged 13.5 sick days in 1981. The projected 1984 average is 8 days of sick leave per employee. A Boston Municipal Research Bureau study to be released in February shows the average number of sick days at the School Department was 14 days in 1982 and 12 days in 1983. The work year for teachers is 180 days compared to 240 days for other City employees. Private industry averages 5-6 days sick leave per employee.

Personal Days

Employees who qualify for personal days must arrange with their supervisor before taking the day(s). Managers are permitted to take two personal days per year. Some union employees such as the Police are also entitled to this benefit. These personal days are charged to employees' sick leave time.

Attendance

The City began to confront its absenteeism problems, after the 1978 publication of a Boston Municipal Research Bureau report which concluded that Boston's sick leave program was characterized by poor supervision, excessive wages, frequent abuse, and high cost. Effective September 1979, the City instituted the Managing Attendance Program. The Program standardized attendance policies and procedures throughout the City. To ensure enforcement, the program made managers and supervisors accountable for the attendance of their employees and made employee attendance a factor in evaluating supervisors for promotion.

For the first couple of years, the program had little effect. Reflecting the impact of Proposition 2-1/2

and its draining effect on employee morale, Boston's employees averaged 13.5 sick days in 1981, as noted above. This figure closely approaches the 15-day yearly allowance. In addition to reflecting low morale, the number indicates an attitude that sick leave entitles an employee to 15 extra days off each year and represents an abuse of the sick leave provision.

The program was reemphasized in 1981. It is still in operation and apparently has significantly reduced absenteeism and its costs. The Boston Municipal Research Bureau has conducted an extensive assessment of the program. The expected release date of the BMRB report is February 1984.

Carryover of Vacation and Sick Leave

The present policy of vacation time carryover prohibits the accrual of vacation time between years absent the approval of the Supervisor of Personnel and the employee's department head. Department heads are responsible for sending a list of names and days accrued to the Personnel Division. If days are carried over, they must be used by March 1 of the next year. An investigation of the Traffic and Parking Department indicates that this policy is not followed in practice. One employee had accrued 175 days, and another 40 days. Both were on vacation, while department records showed them to be at work.

Sick leave can be carried over for many years to protect employees in the event of a long-term illness.

An additional expense to the City is the practice of retiring or resigning employees taking accrued vacation

or sick leave just prior to their departure. The City pays current salary levels for the days these employees accrued years before at a lower salary.

In the case of an extended absence, the employee one level below the absent employee moves up to perform the departed employee's job, and so on down the line of employees. The City must pay these workers the rate of pay commensurate with the job actually performed, typically a 1/12 higher level of pay than their previous wage level.

Sick Leave Buybacks

As noted above, employees have the right to accrue sick leave to protect against a long-term illness. However, many employees are entitled to varying policies of sick leave reimbursement referred to as "sick leave buyback." Employees employed on or before January 1, 1983, who used fewer than 5 days of sick leave during the previous year were eligible for reimbursement in a lump sum payment. Persons employed since July 1, 1983, were eligible on a pro-rated basis. Employees must have been on the payroll as of December 31, 1983, to be eligible.

The employee fills out a "Sick-leave reimbursement" form which is then signed by the department head. The Personnel Division approves or denies the payment and returns the form to the originating department. The number of days pay reimbursed plus the number of sick days used equals a total of five (5) days of cash redemption. For example, if zero (0) sick days are used, the employee may receive five (5) days pay in cash redemption; if four (4) sick days are used, the employee may receive one (1) day's pay in cash redemption.

The payment of the 1982 sick leave buyback was postponed until 1982 because of Proposition 2-1/2. The payments for 1981 and 1982 were paid within several months of each other. A summary of recent years' sick leave buybacks follows:

1981	\$ 118,000
1982	327,000
1983 (detailed in Table 4)	327,000
1984	est. 300,000-400,000

TABLE 4

CITY OF BOSTON
SICK LEAVE BUYBACK EXPENDITURES
JUNE 30, 1983
(in thousands)

<u>Department</u>	<u>Actual 1983</u>
General Government	\$74
Public Safety	81
Public Works	29
Property & Development	15
Parks & Recreation	32
Library	18
Inspectional Services	42
Veterans' Services	6
Health & Hospitals	2
County	22
Employee Benefits	<u>6</u>
<u>TOTAL</u>	<u>\$327</u>

SOURCE: Payroll - Personnel System
January 9, 1984

Upon retirement, voluntary resignation or death of an employee with fifteen or more years of service, a portion of the employee's accrued sick leave (includes credit for service in State or County government) shall be paid to the employee or his estate in cash. This portion computes to between 15% and 30% of days accrued. The employee's rate of pay is obtained by averaging the base pay for the three years in which the employee's base pay was the highest.

The payment for unused sick leave or vacation time at the time of retirement, resignation or death is included in the employee's last paycheck and is subject to income withholding tax. Managers have not received their buyback long-term accrued money since Proposition 2-1/2 went into effect.

At retirement, Boston Police Detectives are paid for 15% of their accumulated, unused sick days up to a maximum of 200 days at the daily rate in effect at retirement. The Boston Police Patrolmen's rate is the same.

Upon retirement or death, employees of the Fire Alarm Division are paid for 15% of their accumulated sick leave. The rate of pay is equivalent to 1/4 of an employee's regular weekly compensation at the time of retirement.

At the School Department, sick-leave reimbursement is referred to as "severance pay." Boston Teacher's Union (BTU) members and the Boston Association of School Administrators and Supervisors (BASAS) with ten years of service are paid severance pay when they leave, at the rate of 40% of their final per diem pay for each accumulated sick leave and personal day. In the past, there was unlimited accumulation of sick days, but under the terms of the new contract the maximum accrual will be 400 days. The "severance pay" budget for the 1982-1983 school year totalled \$1,975,000.

Health and Life Insurance Benefits

Employees have a range of health insurance options. They may elect coverage by a Blue Cross/Blue Shield Master Medical Plan, by one of the Blue Cross/Blue

Shield affiliated Health Maintenance Organizations (HMO), or by one of three independent HMOs. Also, retirees and the 252 working employees over 65 years of age who qualify for Medicare A and B are eligible for a City Medicare Supplement which serves as Master Medical Coverage.

In fiscal 1984, the City allocated over \$27.3 million to cover the health insurance costs for 26,000 City employees, spouses, family members and retirees. The School Department's budget for this item includes an additional \$9.1 million. The working rates used for budgeting purposes are \$115 per month for single individuals and \$270 per month for families. If an employee's costs for an illness exceed \$75,000, the City is protected from further liability through its reinsurance policy.

The City pays 75% of the premiums for an employee who subscribes to the Master Medical Blue Cross/Blue Shield Plan. It pays 100% for HMO coverage, because premiums are considerably lower than those of the Master Medical Plan. Nevertheless, 86% of all City employees choose the Master Medical Plan.

In 1980, the City replaced a premium payment system of insurance with a cost reimbursement plan. Savings have resulted each year since the change, including \$6 million the first year, \$3 million the second year and \$5 million the third year. In each of the next three years, the City has the right to negotiate the rates with Blue Cross/Blue Shield based on utilization.

All employees receiving health insurance benefits carry a basic \$2,000 life insurance policy, with an option for additional insurance. The Boston Mutual Life Insurance Company is the insurer. The City pays 50% of the cost of

the basic life coverage. The monthly cost per employee is \$1.23. The current premiums will remain constant until November 1989.

Workmen's Compensation Disability

The state Workmen's Compensation Act applies to all employees in the Commonwealth unable to work because of job-related injury. Approximately 300 persons are presently on the City's Workmen's Compensation roll at an estimated annual cost of \$3 million. Of the 300, approximately 75 are widows of City employees who died of job-related injury. As long as the survivors are not fully self-supporting or have not remarried, they receive an allowance, an amount for minor children plus funeral expenses up to specified maximum amounts. Another 75 employees are totally and permanently disabled and will receive benefits for as long as they live. The remaining 150 are temporarily and totally disabled. Some of these persons may eventually be declared permanently and totally disabled.

The State Industrial Accident Board can remove recipients of workmen's compensation from the rolls if they are proven no longer eligible. Alternatively, individual employees may voluntarily remove themselves from the rolls.

A temporarily and totally disabled person receives disability compensation equal to 67% of the average weekly wage, the maximum being \$309.29, plus medical costs during the recovery period. Employees can receive their full wages by supplementing this compensation with sick leave allowance. When an employee has received the maximum allowable compensation (\$75,000 in 1983) a doctor may declare the employee permanently and totally disabled. The employee will

continue to receive a weekly stipend. A seriously injured employee can be proclaimed permanently and totally disabled immediately after the accident.

The permanently and totally disabled person is entitled to receive an accident disability pension upon retirement. Compensation equals 67% of wages received during the three years of highest pay, the maximum being \$309.29, plus the difference necessary to equal the full pension (paid by the Retirement Board). The employee cannot obtain work elsewhere while receiving accident disability compensation, unless the employee has veteran's disabled retirement status.

Overtime

During fiscal 1983, overtime costs (excluding the School Department) totalled \$7.3 million. This amount reflects City and Suffolk County overtime of \$6.3 million and \$1.0 million, respectively. The fiscal 1983 appropriation for overtime costs was \$7.5 million. The fiscal 1984 budget provides \$9.5 million for overtime.

Training/Education/Careers

The Personnel Division is responsible for employee training and development. Five full-time employees concentrate on training and employee assistance activities. In addition, a few departments have internal training resources and programs funded by the individual department.

Over the last few years, management training has received little attention. In 1977, the Personnel Division

retained the American Management Association to design managerial courses in conjunction with the Management Development Council, a group of City managers. The effort collapsed apparently because managers perceived no need for training their peers how to manage, although they did believe supervisors would benefit from such training.

In 1978, several employees in one department participated in a program called Managing for Productivity. The City purchased a pre-packaged program which has not been given to other departments.

The City has held affirmative action seminars, including a one-day workshop in 1982. While heavily attended by department personnel officers, only one department head participated. (See the Section on Affirmative Action.)

In September 1983, the City initiated a career development program. The four-day program, given after regular working hours, was open to all City employees. Topics included interviewing skills, resume-writing, how to research a company, networking techniques, and individual career counseling. The City retained an outside firm to develop and conduct the program at an initial cost of \$38,000. It was projected that 100 to 200 people would attend. When approximately 400 employees showed interest, the contract was extended for an additional \$20,000. The contract further provided that the consulting company would train certain City employees to conduct the career development course.

The City has never formally addressed the integration of new employees, other than within the Department of Health and Hospitals. The Personnel Division is in the process of developing an orientation program. As the program is envisioned, supervisors will learn to conduct programs

within their departments and the Personnel Division or department personnel officers will give periodic half-day orientations in such areas as health insurance benefits, retirement benefits and sick leave procedures. An employee handbook is also being developed and is in the final stages of composition.

Some union contracts provide for joint union/management committees, including committees on training and productivity, but these committees have yet to be formed.

Tuition Reimbursement

All Boston employees receive tuition reimbursement benefits for job-related courses although coverage varies among groups of employees (see Table 5). The City offers full tuition reimbursement for certification programs in cases where employees must take courses to remain certified (e.g., nurses). Personnel budgeted \$60,000 for tuition reimbursement in fiscal 1984.

TABLE 5

TUITION REIMBURSEMENT

<u>Employee</u>	<u>Reimbursement Percentage</u>	<u>Course Grade Requirements</u>
Managers	100%	Regardless of grade
Personnel Division Employees	100%	Regardless of grade
Non-managerial employees (other than in Personnel Division)	75% 60% 45% 50%	A B C Pass/Fail (must pass)

On December 8, 1983, Personnel notified employees that all allocated funds had been committed and that no applications received after December 7 would be honored. This does not necessarily mean that the entire allocation has been used. In committing funds, Personnel assumes it will pay out the maximum amount. In addition, employees frequently decide not to take a course after they submit the initial request for reimbursement.

TABLE 6
TUITION REIMBURSEMENT - FISCAL 1984

<u>Employee</u>	<u>Number of Employees Participating</u>	<u>Total Cost of Tuition</u>	<u>Expected Reimbursement Rate</u>	<u>Expected Reimbursement Rate</u>	<u>Allocation</u>
Management	27	\$ 8,002	100%	\$ 8,002	\$10,000
Personnel Division	6	3,215	100%	3,215	4,000
Other employees	<u>116</u>	<u>54,040</u>	75%*	<u>40,530</u>	<u>40,000</u>
Subtotal	149	\$65,257		\$51,747	\$54,000
Miscellaneous Expenses				<u>6,000</u>	<u>6,000</u>
TOTAL				<u>\$57,747</u>	<u>\$60,000</u>

* Rate assumes that all employees receive an "A" in the course.

DISCIPLINE

Following is an overview of the principles and procedures developed to ensure the effective and fair implementation of discipline. The rules apply to supervisors as well as to line employees.

Before taking any disciplinary measures, a supervisor must find just cause and must establish that the supervisor gave forewarning of possible disciplinary action. The supervisor must also demonstrate that the rule violated was related to orderly, efficient and safe conduct of operations, that an objective and thorough investigation was conducted, and that the supervisor has applied rules, orders and penalties even-handedly, fairly, and without discrimination.

The City adheres to a policy of progressive discipline, also referred to as corrective discipline. Under this policy, management informs the employee in question that there has been a violation of an accepted work policy but offers the employee a chance to correct behavior. Corrective discipline entails the progressive use of counseling, oral warning, written warning, suspension, demotion and termination. Counseling is used to prevent the development of poor or unsatisfactory patterns of behavior and to redirect employees to a satisfactory level of behavior. An oral warning is given when a first infraction of the rules has occurred, and the employee is put on notice that behavior needs to be corrected. If the infraction is not a first offense or is serious enough to warrant a more severe discipline, an oral warning need not be given. The written warning is given when an employee has failed to improve behavior in a stated period of time or for a more serious first time incident. The warning must include a citation of previous warnings and an indication of the consequences of further misconduct. The warning becomes part of the employee's permanent file and the employee is permitted to file a counter statement.

A supervisor, with the approval of the department head, may suspend an employee by notifying the employee and

providing a written explanation of the reasons for suspension. Suspensions of less than five days are given when warnings have failed to correct misconduct. A suspension may also be given when a serious incident or "overt act" (misconduct which is willful and deliberate) has occurred. Examples include insubordination, refusal to work, refusal to carry out direct orders and abusive, disruptive or violent behavior.

In all but the most extreme cases, suspension for more than five days or discharge is not considered unless the previous measures have failed to improve the employee's job performance. In the case of suspension of five days or more, or of discharge, the employee is suspended with pay; given a written statement of the specific reasons for the contemplated action; provided with Massachusetts General Laws, Chapter 31, Sections 41-45, if the employee is a Civil Service member; and given notice of a hearing. Suspension without pay is more commonly used.

Demotion is a means of placing an employee in a position of lower responsibility and pay. However, if an employee is clearly capable of performing the current job but fails to improve after adequate warnings, resignation or discharge may be preferred to demotion. Discharge may result from commission of a grave offense. More often it occurs after an accumulation of minor offenses and the failure of the employee to react positively to corrective efforts.

Externally Funded Personnel

In 1978, the Boston Municipal Research Bureau (BMRB) reported that the City was reducing the number of

employees paid from City funds and significantly increasing the number of City workers paid through federally funded Comprehensive Employment and Training (CETA) and Community Development programs. This trend has since been reversed.

From 1976-1978, City-funded employees decreased by 1,118 while CETA-funded employees increased by 915. In 1978, over 2,400 City employees were funded by CETA (40 departments had CETA employees in numbers ranging from 1 to 366). Community Development funded in excess of 200 additional positions in City departments and partially funded many more. A summary of recent employee position totals appears in Table 7.

Federally-funded employees who provide services to Boston are not well monitored or tracked by City officials. Financial discussions often focus on the operating budget, cash flow or capital needs. None of these areas directly involves federally funded personnel. Thus, it is possible that employees being paid by federal funds are "hidden", and that when a department requests additional personnel to perform a certain task, it is not known whether these services are already being performed by federally funded personnel. Better information on federally funded personnel is needed for a comprehensive assessment of budgetary needs.

PENSION SYSTEM

Boston participates in the State-Boston Contributory Retirement System. The system's goal is to provide retired city employees with benefits sufficient to maintain a standard of living comparable to that enjoyed during active working years.

TABLE 7

SUMMARY OF EMPLOYEE POSITIONS ^a

	<u>Employees Funded By:</u>			
	June ^b 1981	Jan. 1982	Jan. 1983	June 1983
Community Development				
Block Grant	--	169	97	82
Community Schools	--	--	76	58
Eastern Regional				
Library	--	52	64	65
EEPA	--	81	76	84
Mayor's Office of				
Housing	--	109	96	67
Senior Aides Project	--	90	89	90
Others	--	28	28	28
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Externally Funded Positions	954	529	526	497
City-Funded Employees	<u>13,040</u>	<u>10,298</u>	<u>11,452</u>	<u>12,325</u>
Total: All Employees	<u>13,994</u>	<u>10,827</u>	<u>11,978</u>	<u>12,822</u>
Externally Funded as % of Total Personnel	<u>6.82</u>	<u>4.88</u>	<u>4.39</u>	<u>3.87</u>

SOURCE: Boston Municipal Research Bureau.

^a Excludes the School Department.

^b A breakdown of externally funded positions is unavailable.

Organization

Chapter 32 of the Massachusetts General Laws establishes the organization of the system, the composition of the Retirement Board and uniform benefit formulas to cover all public employees.

The three key participants in the administration of State-Boston's retirement system are the Boston Retirement Board, the Commissioner of Insurance, and the Contributory Retirement Appeals Board. The Department of Banking and Insurance has general supervisory responsibilities for the Commonwealth's Retirement System.

The State-Boston Retirement System is administered by a three-member retirement board composed of the City auditor; a retired or contributory member of the system, elected by the members of the system; and an individual chosen by the other two members. The Board's responsibilities include determining each employee's eligibility and retirement benefits, coordinating the payment of such benefits, and investing the Fund's assets. A member of the actuarial staff of the State Division of Insurance monitors the Retirement Board's operations. The Board is required to maintain an accurate report of each member's date of birth, length of employment and amount of compensation as well as other pertinent information.

The State Commissioner of Insurance is required to inspect and examine the retirement system at least once every three years to make certain of its financial condition and its ability to fulfill pension obligations.

The Contributory Retirement Appeal Board (CRAB) is responsible for ruling on appeals of local retirement boards' decisions brought to it by any employee. CRAB is composed of three members: the Director of Bureau of Accounts, the Commissioner of Insurance, and an Assistant Attorney General.

Membership

With the exception of elected officials who may or may not choose to participate, and temporary or part-time employees whose eligibility is determined by the retirement board, most of the City's 13,324 employees (at June 30, 1983, exclusive of School Department employees) are members of the system.

Funding Policy (Contribution)

City employees hired after January 1, 1975 contribute 7% of their salaries to the retirement system. Those hired before January 1, 1975 contribute 5% of their salaries. For fiscal 1982 and 1983, employee contributions totalled \$24,566,000 and \$26,130,000, respectively.

The City funds its cost of pension liabilities on a pay-as-you-go basis mandated by statute. The annual cost of contributory pensions is established by the State Division of Insurance and is a legal obligation of the City which must be included in the tax levy. Boston is reimbursed annually by the State for the portion of the City's annual pension contribution paid in the prior year for retired teachers. For fiscal 1982 and 1983, City contributions were \$84,897,000 and \$84,818,000 respectively.

The net unfunded actuarial liability of the City of Boston at June 30, 1983 was \$1.3 billion. This amount represents the estimated accumulated cost of all benefits already earned by existing pensioners and current employees but not yet funded. Actuarial assumptions used in the calculation of the unfunded liability include: life expectancy of employees; retirement age assumptions by group; and an 8% rate of return on invested assets.

Benefits

Retirement benefits are paid to members with at least 10 years of service who are at least 55 years of age. The amount of benefits is affected by an employee's years of service, average salary and a statutory percentage. Retirees may elect one of three benefit options for receiving retirement allowance: a full retirement allowance on a monthly basis; a benefit 3% to 5% less than the full allowance with the difference paid to a beneficiary at the time of the employee's death; or a "Joint and Last Survivor" allowance paid to the retiree for life with 67% of the allowance paid to the surviving beneficiary.

If an employee dies before retirement, a death benefit equal to the value of the employee's accumulated deductions is paid to the employee's beneficiary. Employees who become totally disabled generally receive a pension equal to 72% of the annual rate of regular compensation.

Analysis

The four major financial issues surrounding the future viability of the State-Boston Retirement System include:

- o The pay-as-you-go funding approach
- o The legal and institutional constraints on investing pension fund assets
- o Superannuation benefit levels
- o Disability retirement awards.

The statistical and actuarial information necessary to demonstrate the bottom-line impact of the financial is-

sues on the State-Boston Retirement System was unavailable and, therefore, further study is needed.

Pay-As-You-Go Funding Approach--The 5% and 7% contributions by Boston employees, together with the income earned on those contributions, constitute only 10% of the retirement benefits to be paid. The remaining 90% is provided by the City from its annual operating budget. City contributions are made only when retirement benefits become due. As noted, Boston faces a net unfunded actuarial liability of \$1.3 billion.

Concern over the pay-as-you-go method is not related simply to the existence of an unfunded liability, but also reflects the anticipated rate of growth in this unfunded liability. Employment increases and/or salary level rises will cause an acceleration in the rate of growth, while a decline in the City's revenue base (as with Proposition 2-1/2) will place a further burden on future revenues available to fund pension liabilities. The results will be an enormous burden on the local tax base. Under the constraints of a 2.5% annual tax base growth, pension costs in Boston will exceed local tax levies within the next ten years.

Pay-as-you-go financing adversely impacts Boston's credit rating, causing the interest rates charged on long-term borrowings to increase. When lowering Boston's rating, Moody's Report cited several factors, including the impact of pension costs.

Legal and Institutional Constraints on Investing Pension Fund Assets--Chapter 32, Section 23 of the Massachusetts General Laws imposes four constraints on investment fund managers in making investment decisions: the legal

list, which lists permissible investments; percentage limitations which set ceilings on the amount of assets that may be committed to each investment category; minimum investment return; and fiduciary responsibility. These restrictions provide little investment flexibility. Although the intent of the restrictions is to ensure conservative and prudent investment and thereby minimize the risk to principal, this relative inflexibility results in a suboptimal investment portfolio.

Superannuation Benefit Levels--A comparison of superannuation benefits in Massachusetts to public pensions in other states and to private sector pension plans suggests benefit levels in Massachusetts are generous. Benefits paid to typical retirees in Boston are considerably higher than those paid in other public systems without Social Security.

Disability Retirement Awards--There are two types of disability retirement in the State-Boston Retirement system: accidental disability and ordinary disability.

Ordinary disability retirement is awarded to employees who become "totally and permanently disabled" from the performance of their duties through an accident or other medical condition or problem which is not job-related. An ordinary disability award is only granted employees who are less than 55 years of age with 15 or more years of service. Minimum benefit awarded is 22.5% of final salary.

Accidental Disability awards are granted to employees who become totally and permanently disabled while in the performance of duties. Unlike ordinary disability, an accidental disability is available to any member who is disabled in the line of work, regardless of the member's years of service. Accidental disability retirement allowance

equals 72% of average salary received over the last twelve months. In addition, a \$312 annual allowance is given for each dependent under age 21. A cap of \$36,000 is placed on the accidental disability allowance.

Findings by the JFK School of Government in a study entitled "Evaluation of the Local Public Pension System in Massachusetts" pertaining to disability included the following:

- o Disability retirement allowances are not awarded uniformly.
- o The average proportion of retirees awarded disability retirement allowances is greater than the average proportion of retirees receiving disability retirement benefits in other states.
- o The retirement boards are empowered by broad discretionary authority to determine disability awards. At the same time, the boards do not use firm standards or guidelines in making these ordinary and accidental disability determinations.
- o Accidental and ordinary disabilities have increased between 1976 and 1980 based on a comparison between the number of employees retired due to these disabilities and the total active work force.
- o Accidental disabilities are awarded approximately two to four times more frequently than ordinary disabilities.
- o Ordinary disability payments are not growing in relation to all retirement benefit payments, but accidental disability shows a steady increase from 1976 to 1980.

SUMMARY

As noted, a variety of structures comprise the framework of Boston's hiring and promotion policies and practices. They include Civil Service and discrimination laws, Civil Service guidelines of the State Department of Personnel Administration, union contracts, and broad discretionary powers and authority of the department heads. While the complicated formality of the process may be adhered to, department heads often follow it merely as a formality, having already decided whom to hire or wishing to exercise complete control over hiring.

1. A primary vehicle allowing for hiring process control is the department head's discretion to restrict promotional vacancies to department employees. This discretion should be abolished. All vacancies should be open and competitive. Opening promotional positions will increase opportunities for minorities and women to assume middle and high level positions and will otherwise facilitate efforts to develop an employee population representative of the City population.
2. Another potential tool for improving the hiring and promotion process is a performance appraisal system. The City should develop such a system to enhance morale and productivity and to encourage communication between managers and their employees. Where possible, performance appraisals should be used in selecting candidates for promotion. Civil Service Law and union contract provisions (i.e., qualifications and ability being equal, seniority shall prevail) may restrict its use in promotions.
3. The City also should commence a study to evaluate positions. The study's emphasis should be on evaluating jobs traditionally filled by women on an

equal basis with comparable positions held predominantly by men. While this could be costly, current initiatives in other states may result in legislative mandates that would affect Boston.

4. The Personnel Division should confirm whether Civil Service classification lists exist when it receives notice of an opening rather than when the hiring process is almost complete. Existing policy mandates this check, but under current practice the check is not made until the department sends Personnel the paperwork for a newly hired employee.
5. In the area of affirmative action, the City has made some accomplishments but remains short of its goals. The minority employee utilization rate has increased nearly 10% in the past five years. However, representation of minorities and women in all levels of City government is low, particularly in top management positions.
6. The Executive Order promulgated January 1, 1983 should be amended to provide that the Affirmative Action Director reports directly to the Mayor and has the power to recommend approval or disapproval on all appointment forms and personnel requisitions.
7. The Affirmative Action Unit should be strengthened to offer viable technical assistance to department heads in the recruitment and hiring of minorities and women. The Unit should play a key role in assisting the Personnel Division to create a pool of qualified candidates for affirmative action purposes.
8. To increase the levels of minorities and women in higher level positions, promotional vacancies should be targeted for affirmative action hires where appropriate. Although the hiring and utilization rates for women and minorities have increased over the past five years, overall, many departments

have not complied with affirmative action hiring and utilization rates. An incentive or punishment system should be created to ensure department heads and personnel officers adhere to the hiring formula for minorities and women and to stimulate greater overall interest in affirmative action.

9. As Civil Service examinations are given and lists are developed, the City should take full advantage of the Civil Service provisions which could assist in furthering its affirmative action goals.
10. The attendance of department heads at affirmative action training sessions and meetings should be mandated.
11. Health insurance costs are a tremendous drain on Boston's financial resources. The City should explore the possibility of self-insuring health care insurance. The Boston Health Plan, one of the City's HMO alternatives, could be the basis of a self-insurance plan. Many employees have avoided this Plan because of its BCH location. If Plan utilization can be increased, through creating incentives, then self-insurance may be feasible.
12. Another means to reduce health insurance costs is to quickly remove employees who have left City employment from the health care insurance roll.
13. While the City has training and employee development resources which have produced some important programs, these resources have been underutilized. Some training efforts have suffered from lack of interest on the part of managers. Others have lacked long-term and widespread benefits because they are given only once. The City's training staff possesses the capacity and skills to expand training and employee development.

14. One area requiring particular attention is management training. The City should develop an on-going program. No such training exists, and many managers achieve their status for political reasons or for their worker skills, not for managerial skills. New managers should receive the training within a few months of their becoming managers.

APPENDICES

- A. City of Boston Monthly Employee Count - 1983 (by Department).
- B. Affirmative Action Figures (December 1983).
- C. New Hires: July 1, 1983-December 31, 1983.
- D. City of Boston Payroll Analysis for the Years Ended June 30 (1982, 1983).

APPENDIX A

CITY OF BOSTON MONTHLY EMPLOYEE COUNT - 1983

(By Department)

Due to the conversion of payrolls from the "old" payroll system to the new Integrated Personnel/Payroll System, employee data for the months of January, February and March is unavailable due to the fact that this information is not captured under the "old" payroll system. During the first quarter of 1983 (calendar year), the following departments were still on the "old" payroll system: Police Department, Fire Department, Public Works Department, Library Department, and School Department (Teachers, Administration, Custodians and Per Diems).

The Grand Total figures do not include the School Department or the Department of Health and Hospitals. Employee figures for the School Department cannot be provided by this office because the School Department did not convert to the Integrated Personnel/Payroll System until September 1983. The Department of Health and Hospitals payrolls are processed by an outside private agency. This office maintains Hospital payroll records pertaining only to the gross dollars of weekly payrolls and the total number of payroll checks generated.

The figures listed as total terminations and total adds may be overstated due to the fact that some employees are terminated from one position and hired to another position within the same period. Total terminations that occurred during the first ten (10) days of January 1984 are listed; however, this figure is overstated because some of the employees that were terminated from their positions dur-

ing this time period were, in fact, hired in different positions. Additionally, some of these positions will, necessarily, be filled by the new Administration.

Department information pertaining to the number of employees in the department has been obtained from actual payrolls processed by this office. Information pertaining to the number of terminations and new hires has been taken from the Personnel Transaction Report (a weekly report that lists all transactions, input by the Personnel Division, that affect employee/payroll status).

January 9, 1984

SOURCE: City of Boston, Personnel Division.

APPENDIX B

AFFIRMATIVE ACTION FIGURES
DECEMBER 1983

<u>Department</u>	<u>Total Em- ployees in Dept.</u>	<u># of Min- ority Em- ployees</u>	<u>% of Total</u>	<u># of Fe- male Em- ployees</u>	<u>% of Total</u>
Real Property	153	13	8.5%	28	18.3 %
Environment	16	3	18.75	11	68.75
Public Imp. Comm.	13	1	7.7	6	46.15
Fair Housing	17	8	47.0	8	4.7
Public Works	745	186	25.0	36	4.8
NDEA	161	56	34.7	92	57.14
Office of Housing	66	17	25.75	26	39.0
Penal Dept.	198	57	29.0	12	6.0
Police-Civilian	507	56	11.0	280	55.0
Police-Uniform	1,833	286	15.6	100	5.4
Adm. Services	27	3	11.0	13	48.0
Data Processing	67	8	12.0	29	43.0
Budget	23	2	8.7	10	43.47
Health Ins.	19	0	0	10	52.6
Labor Relations	12	1	10.0	5	50.0
Personnel	38	12	31.5	25	65.78
Printing	64	1	1.5	9	14.0
Purchasing	24	3	12.5	11	45.8
Adm. Complaints	18	1	7.1	4	28.5
Assessing	202	36	17.82	108	53.46
Auditing	51	14	27.45	31	60.78
Retirement	44	4	9.0	23	52.0
Traffic/Parking	276	49	17.75	112	40.0
Parking Clerk	51	9	17.64	35	68.62
Fiscal Affairs	14	1	7.1	6	42.85
Inspection Serv.	219	23	10.5	30	13.6
Vet. Services	32	6	18.75	12	37.5
City Clerk	11	1	9.0	6	54.0
Registry	25	2	8.0	21	84.0

APPENDIX B
(continued)

AFFIRMATIVE ACTION FIGURES
DECEMBER 1983

<u>Department</u>	<u>Total Em- ployees in Dept.</u>	<u># of Min- ority Em- ployees</u>	<u>% of Total</u>	<u># of Fe- male Em- ployees</u>	<u>% of Total</u>
Public Facil.	160	25	15.62	36	22.5
Comm. Schools	119	33	27.7	7	66.3
Treasury-Coll.	32	3	9.37	15	46.87
Treas-Treas.	25	2	8.0	8	32.0
Election	46	4	8.6	12	26.0
Fire-Civilian	126	4	3.1	33	26.0
Fire-Uniform	1,569	257	16.3	257	16.3
Law Department	55	6	10.9	34	61.8
Law-Workmens Comp.	8	1	12.5	6	60.0
Public Library	478	73	15.2	259	54.18
Licensing	14	3	21.42	10	71.42
Elderly	115	23	20.0	68	59.0
Mayor's Office	16	2	12.5	10	62.5
Rent Control	21	1	4.7	11	52.38
Comm. Services	11	1	9.0	7	63.0
EDIC	9	0	0	3	33.3
Consumer Services	14	2	14.28	7	50.0
Public Info.	14	1	7.0	6	42.85
Policy Management	31	4	12.9	20	64.51
Parks & Rec.	424	105	24.7	52	12.0

SOURCE: City of Boston Personnel Office

APPENDIX C

NEW HIRES
JULY 1, 1983 - DECEMBER 31, 1983

	<u>Salary Range</u>	<u>Total Employed</u>	<u>Percent Employed</u>
<u>Non-Minorities:</u>			
Total	\$13,000	349	70.4%
	\$13-25,000	97	70.8
	\$25,000 +	7	87.5
Male	\$13,000	195	39.3%
	\$13-25,000	69	50.4
	\$25,000 +	6	75.0
Female	\$13,000	154	31.0
	\$13-25,000	28	20.4
	\$25,000 +	1	12.5
<u>Minorities:</u>			
Total	\$13,000	147	29.6%
	\$13-25,000	40	29.2
	\$25,000 +	1	12.5
Male	\$13,000	67	13.5
	\$13-25,000	27	19.7
	\$25,000 +	0	0
Female	\$13,000	80	16.1
	\$13-25,000	13	9.5
	\$25,000 +	1	12.5
Black	\$13,000	110	22.2%
	\$13-25,000	30	22.0
	\$25,000 +	1	12.5
Male	\$13,000	51	10.3
	\$13-25,000	20	14.6
	\$25,000 +	0	0
Female	\$13,000	59	11.9
	\$13-25,000	10	7.4
	\$25,000 +	1	12.5
Hispanic	\$13,000	18	3.6%
	\$13-25,000	7	5.1
	\$25,000 +	0	0
Male	\$13,000	9	1.8
	\$13-25,000	5	3.6
	\$25,000 +	0	0
Female	\$13,000	9	1.3
	\$13-25,000	2	1.4
	\$25,000 +	0	0

APPENDIX C
(continued)

NEW HIRES
JULY 1, 1983 - DECEMBER 31, 1983

	<u>Salary Range</u>	<u>Total Employed</u>	<u>Percent Employed</u>
Asian	\$13,000	18	3.6%
	\$13-25,000	3	2.2
	\$25,000 +	0	0
Male	\$13,000	6	1.2
	\$13-25,000	2	1.5
	\$25,000 +	0	0
Female	\$13,000	12	2.4
	\$13-25,000	1	0.7
	\$25,000 +	0	0
American	\$13,000	1	0.2%
Indian	\$13-25,000	0	0
	\$25,000 +	0	0
Male	\$13,000	1	0.2
	\$13-25,000	0	0
	\$25,000 +	0	0
Female	\$13,000	0	0
	\$13-25,000	0	0
	\$25,000 +	0	0
TOTALS	\$13,000	496	100.0%
	\$13-25,000	137	100.0%
	\$25,000 +	8	100.0%

SOURCE: City of Boston Personnel Office

CITY OF BOSTON
PAYROLL ANALYSIS
FOR THE YEARS ENDED JUNE 30
(in thousands)

	1982 OVERTIME PAYROLL	1982 TOTAL PAYROLL	1983 OVERTIME PAYROLL	1983 TOTAL PAYROLL	JULY-NOVEMBER 1984 OVERTIME PAYROLL	1984 TOTAL PAYROLL
General Government						
10111 MAYOR OFFICE EXPENSES	\$ 1	\$ 609	\$ 0	\$ 558	\$ 0	\$ 298
10112 CITY COUNCIL	0	850	0	1,007	0	416
10113 CITY COUNCIL PROCEEDINGS	0	0	0	0	0	0
10114 MAYOR'S OFFICE LICENSING	0	192	0	199	0	83
10119 OFFICE OF HUMAN RIGHTS	0	0	0	0	0	0
10121 ELECTION	108	721	223	1,067	434	915
10128 LISTING BOARD	0	92	32	172	36	60
10131 AUDITING	0	618	8	713	6	380
10132 TREASURY-M. V. EXCISE COLLECTION	0	0	0	0	0	0
10134 OFFICE OF PROPERTY EQUALIZAT	18	2,189	112	1,692	0	0
10135 OFFICE OF FISCAL AFFAIRS	0	184	6	66	1	0
10136 ASSESSING	13	1,385	47	2,684	42	1,583
10137 TREASURY-COLLECTING DIVISION	37	726	40	631	34	268
10138 TREASURY-TREASURY DIVISION	22	419	14	470	3	205
10139 TREASURY RESEARCH & RESOURCE	0	0	0	99	0	0
10141 ADMINISTRATIVE SERVICES-	3	463	10	442	10	217
10142 PERSONNEL DIVISION	1	634	1	775	0	298
10143 PURCHASING DIVISION	0	433	0	446	0	219
10144 BUDGET DIVISION	3	554	36	600	35	264
10145 PRINTING DIVISION	31	950	18	1,112	10	568
10146 COMPLAINTS DIVISION	0	0	1	241	1	127
10147 LABOR RELATIONS DIVISION	0	138	1	205	2	90
10149 DATA PROCESSING DIVISION	20	1,070	8	1,510	0	655
10151 LAW	6	1,249	0	1,259	0	508
10153 INTERGOVERNMENTAL RELATIONS	0	0	0	0	0	55
10161 CITY CLERK-CITY CLERK	2	239	3	258	1	109
10163 CITY CLERK-REGISTRY DIVISION	0	380	0	421	0	155
10193 FINANCE COMMISSION	0	81	0	69	0	30
11321 COMMUNITY SERVICES ADMIN.	0	87	0	224	0	108
11361 CITY RECORD PUBLICATION	0	53	0	55	0	21
11384 RENT CONTROL ADMINISTRATION	0	262	0	337	0	174
11386 E. D. I. C.	0	302	0	223	0	73
11387 COMMISSION ON AFFAIRS OF ELDERLY	0	1,649	0	1,457	1	584
11398 COMMISSION ON HANDICAPPED	0	0	0	44	0	22
11402 OFFICE OF POLICY MANAGEMENT	0	0	1	788	0	362
11403 FAIR HOUSING COMMISSION	0	0	0	134	0	56
11404 PUBLIC INFORMATION	0	0	2	253	5	133
11406 EMERGENCY SHELTER COMMISSION	0	0	0	0	0	0
Subtotal	265	16,529	563	20,211	621	7,936

*Certain non-overtime expenditures are included in the overtime payroll column. These figures are higher than actual overtime expenditures for all years shown.

CITY OF BOSTON
PAYROLL ANALYSIS, CONTINUED
FOR THE YEARS ENDED JUNE 30
(in thousands)

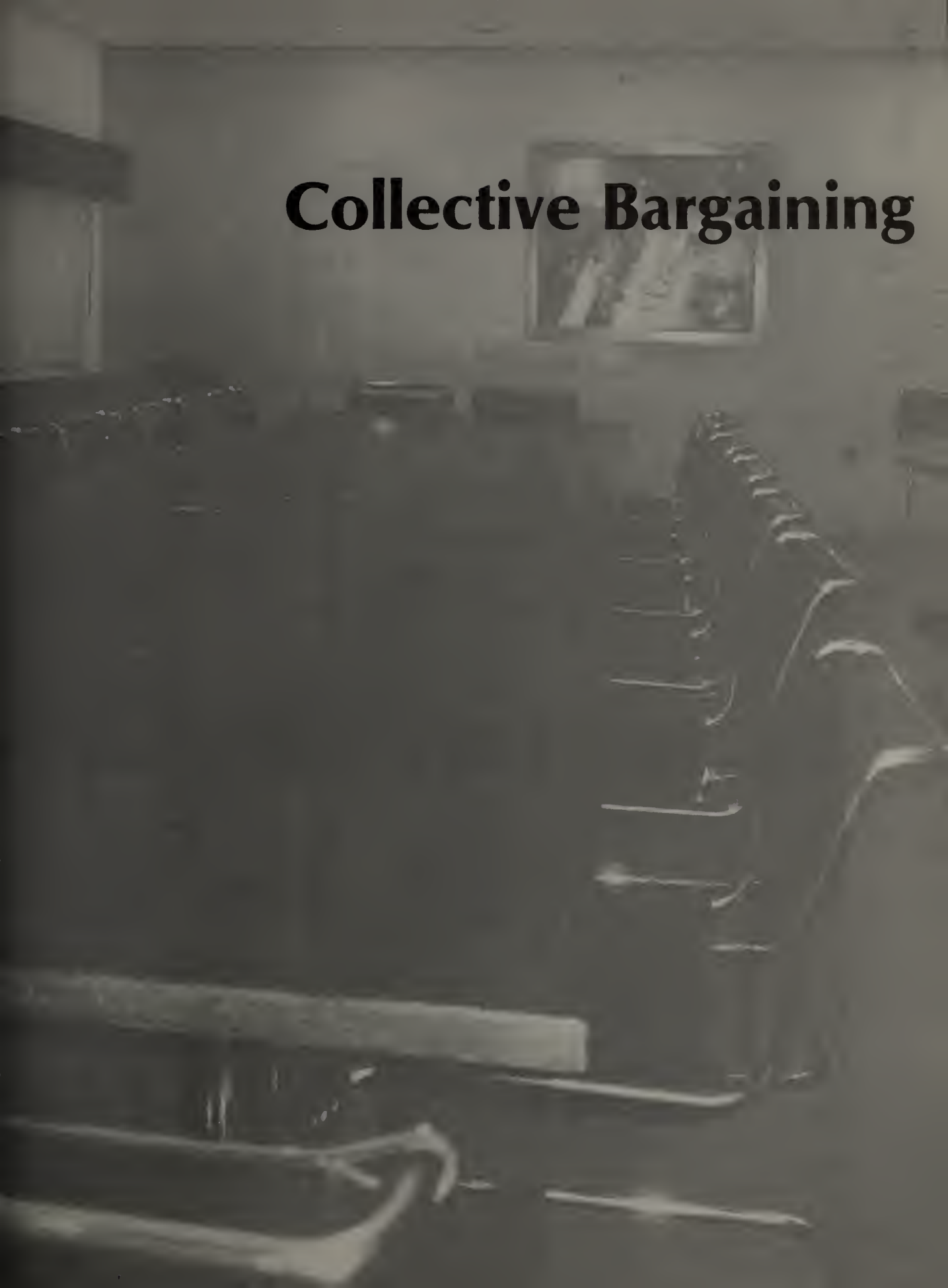
	1982 OVERTIME PAYROLL	1982 TOTAL PAYROLL	1983 OVERTIME PAYROLL	1983 TOTAL PAYROLL	JULY-NOVEMBER 1984 OVERTIME PAYROLL	TOTAL PAYROLL
Public Safety						
10211 POLICE	\$ 3,123	\$ 49,422	\$ 3,290	\$ 56,615	\$ 2,405	\$ 24,274
10221 FIRE	2,263	42,876	956	47,952	572	19,986
10251 TRAFFIC & PARKING	33	3,016	149	3,973	25	1,722
10253 PARKING CLERK	35	137	10	664	0	316
Subtotal	5,454	95,451	4,405	107,204	3,002	46,298
Public Works						
12331 SNOW REMOVAL	47	47	0	0	0	0
10315 PUBLIC IMPROVEMENT COMMISSION	0	0	1	203	0	168
10311 PUBLIC WORKS	217	6,678	1,069	9,551	441	4,269
Subtotal	264	6,725	1,070	9,754	441	4,937
Property & Development						
10171 BOSTON REDEVELOPMENT AUTHORITY	0	1,743	0	2,684	0	530
10184 REAL PROPERTY-BUILDING DIVISION	4	1,780	1	1,558	500	831
10185 REAL PROPERTY-PROPERTY DIVISION	0	389	0	526	0	217
10187 AUDITORIUM COMMISSION	0	279	0	95	0	0
10188 PUBLIC FACILITIES	51	1,647	0	3,029	0	1,560
10189 PUBLIC FACIL.-COMTY SCHOOLS	0	0	0	569	0	471
Subtotal	55	5,838	1	8,461	500	3,602
Parks & Recreation						
11141 PARKS & RECREATION	54	3,157	84	3,695	46	1,909
11143 ENVIRONMENTAL AFFAIRS	0	170	0	325	0	125
53321 PARKS & RECREATION-CEMETERY	69	590	68	615	20	255
Subtotal	123	3,917	152	4,635	66	2,289
Library						
11011 LIBRARY	50	6,032	20	7,078	4	3,376
Subtotal	50	6,032	20	7,078	4	3,376
Inspectional Services						
10252 LICENSING BOARD	2	247	2	268	0	117
10260 INSPECTIONAL SERVICES	1	4,442	13	5,169	4	2,310
10262 BOARD OF APPEAL	0	0	0	146	0	52
Subtotal	3	4,689	15	5,583	4	2,479

CITY OF BOSTON
PAYROLL ANALYSIS, CONTINUED
FOR THE YEARS ENDED JUNE 30
(in thousands)

		1982 OVERTIME PAYROLL	1982 TOTAL PAYROLL	1983 OVERTIME PAYROLL	1983 TOTAL PAYROLL	JULY-NOVEMBER 1984 OVERTIME PAYROLL	TOTAL PAYROLL
Veterans' Services							
10741 VETERANS' SERVICES	\$	0	\$ 396	\$ 0	\$ 563	\$ 0	\$ 162
10742 VETERANS' GRAVES REG.		1	53	0	52	0	23
Subtotal		1	442	0	620	0	185
Schools							
20046 PLANNING & ENGINEERING		0	1,169	0	1,250	6	472
29900 GENERAL SCHOOLS		0	139,318	0	148,972	0	48,256
Subtotal		0	140,487	0	150,222	6	48,728
Health & Hospitals							
10611 BOSTON CITY HOSPITAL		1,668	47,107	1,677	56,125	608	21,290
10621 MATTAPAN HOSPITAL		179	5,122	127	5,501	39	2,256
10631 LONG ISLAND HOSPITAL		641	7,212	554	7,627	161	3,003
10641 MEDICAL EXAMINERS		0	241	0	0	0	0
Subtotal		2,488	59,682	2,358	67,253	808	26,549
County							
40165 REGISTRY OF DEEDS		0	800	0	957	0	378
40182 COURT HOUSE CUSTODIAN		0	2,202	0	2,428	0	973
40811 JAIL		165	2,846	194	3,170	98	1,400
40813 HOUSE OF CORRECTION		264	3,591	832	4,484	641	2,211
Subtotal		429	9,432	1,031	11,032	739	4,962
Judgment & Claims							
11331 EXECUTION OF COURTS		0	0	0	0	0	0
Subtotal		0	0	0	0	0	0
Employee Benefits							
10148 ADMIN. SERVICES-HOSPITAL		9	335	0	2	5	120
11377 BOND ALLOTMENT		0	0	0	12	0	6
10192 STATE BOSTON RETRMT SYSTEM FUND		7	392	7	761	4	0
11341 WORKMENS COMPENSATION SERVICES		0	168	0	263	0	99
11342 WORKMENS COMPENSATION		0	0	0	0	0	0
Subtotal		16	895	7	1,038	9	225
TOTAL		\$ 9,148	\$350,140	\$ 9,622	\$397,103	\$ 6,200	\$152,272

Sources: Overtime Payroll, Budget Department.
Total Payroll, Auditing Department.

Collective Bargaining



INTRODUCTION

Under state law, employees of all cities and towns in the Commonwealth have the right to organize into bargaining units and bargain collectively (through representatives of their choosing) with respect to wages, hours, and other terms and conditions of employment. The law permits municipal employees to engage in certain concerted activity to achieve their ends, but prohibits municipal employee strikes.

As of November 1983, the City of Boston, including the School Department, Suffolk County and City Departments, employed approximately 21,249 employees. Of these, approximately 16,812, or 79%, were organized into 36 bargaining units represented by 23 different unions, most of which are affiliated with the American Federation of Labor-Congress on Industrial Organizations (AFL-CIO). The great majority of employees other than police, firefighters, and teachers are represented by two large unions: the American Federation of State, County and Municipal Employees (AFSCME), Council 93; and the Service Employees International Union (SEIU), Local 285. Most Boston police, most firefighters, and all teachers are represented by the Boston Police Patrolmen's Association (BPPA), the International Association of Firefighters (IAFF), Local 718, and the Boston Teachers Union (BTU), respectively. Table 1 presents the total membership and selected demographics statistics (sex and race) of all unions representing City of Boston employees. (See Table 1 on next page.)

The importance of collective bargaining costs to the City's future fiscal health led to this comprehensive review of the City's collective bargaining process and the appropriation process used to fund cost increases which result from contract settlements. The Chapter explains the

TABLE 1
(Page 1 of 2)

MEMBERSHIP AND SELECTED DEMOGRAPHICS FOR UNIONS REPRESENTING CITY OF BOSTON EMPLOYEES
CITY/SUFFOLK COUNTY DEPARTMENTS
(Percentages based on estimated total membership)

Name of Union	Total Member- ship	% Male	% Female	% White	% Black	% Hisp.	% Other	Contract Status
Boston Police Patrolmen's Association	1,500	93.4	6.6	81.4	15.1	2.6	.9	Expired 6/30/82
Boston Police Superior Officer's Fed. (sergeants, lieutenants and captains, including two employees in acting capacity)	235	97.0	2.2	98.7	1.5	.4	.4	Expired 6/30/82
Boston Police Detectives Benevolent Soc. ¹	247	98.0	2.0	90.2	8.3	1.0	.5	Expired 6/30/82
o Detective Patrolmen Bargaining Unit	-212	NA*	NA	NA	NA	NA	NA	
o Detective Superior Officers Bargaining Unit	-35	NA	NA	NA	NA	NA	NA	
International Association of Fire Fighters Local 718	1,657	100.0	0**	83.4	14.3	2.1	.2	Expired 6/30/83
International Brotherhood of Fire Fighters and Oilers (includes two bargaining units, one for City and one for Suffolk County employees)	43	100.0	0.0	100.0	0.0	0.0	0.0	Expired 6/30/83
Service Employees International Union Local 285	2,975	49.8	50.2	86.3	10.3	1.9	1.5	Mediation--All
o City Bargaining Unit (clerical, technical and professional)	-1,800	NA	NA	NA	NA	NA	NA	contracts ex-
o County Unit	-300	NA	NA	NA	NA	NA	NA	pire 6/30/84
o Registered Nurses	-590	NA	NA	NA	NA	NA	NA	but are sub-
o Public Health Nurses	-45	NA	NA	NA	NA	NA	NA	ject to wage
o Licensed Practical Nurses	-240	NA	NA	NA	NA	NA	NA	negotiations
								commencing
								7/1/83.
American Federation of State, County and Municipal Employees ² Council 93	3,415	65.6	34.4	78.1	18.2	2.3	.4	Mediation--All
o Corrections Officers (Deer Island)	-162	97.5	2.5	70.0	NA	NA	30.0	contracts ex-
o Jail Officers and Nurses (Charles Street Jail)	-123	88.6	11.4	72.2	NA	NA	27.8	pire 6/30/84
o Library Non-Professionals	-310	46.1	53.9	75.5	NA	NA	24.5	but are sub-
o City-wide Unit	-3,066	60.0	NA	NA	NA	NA	NA	ject to wage
								negotiations
								commencing
								3/15/83 or
								7/15/83.
International Brotherhood of Electrical Workers Local 103	13	100.0	0.0	92.3	7.7	0.0	0.0	Expired 6/30/82
Boston Typographical Union No. 13	23	100.0	0.0	100.0	0.0	0.0	0.0	Expires 6/30/84
								open for wage
								negotiation
								since 8/15/83.
Graphic Arts Local 600 (Bookbinders)	21	76.2	23.8	90.5	0.0	4.75	4.75	FACT FINDING
								expires 9/30/84
								open for wage
								negotiation
								commencing
								7/15/83
Graphic Arts Local 67 (Pressmen)	18	100.0	0.0	94.4	5.6	0.0	0.0	Expires 9/30/84
								open for wage
								negotiation
								commencing
								8/15/83.
Boston Public Library Professional Staff Association	127	34.6	65.4	93.4	3.6	1.5	1.5	Expires 9/30/84
								open for wage
								negotiation
								since 3/15/83.
Boston Environmental Sanitation Inspec- tors Association (housing inspectors)	65	100.0	0.0	79.7	18.8	1.5	0.0	Expires 6/30/84
								open for wage
								renegotiation
								since 7/5/83.
Boston School Traffic Supervisors Assoc. (part-time crossing guards)	101	NA	NA	NA	NA	NA	NA	Settled through
								6/30/84.
House Officers Association (hospital interns, residents)	272	68.4	31.6	95.6	NA	NA	4.4	Settled through
								6/30/84.

TABLE 1
(Page 2 of 2)

MEMBERSHIP AND SELECTED DEMOGRAPHICS FOR UNIONS REPRESENTING CITY OF BOSTON EMPLOYEES

SCHOOL DEPARTMENT³

(Percentages based on estimated total membership)

<u>Name of Union</u>	<u>Total Member- ship</u>	<u>% Male</u>	<u>% Female</u>	<u>% White</u>	<u>% Black</u>	<u>% Hisp.</u>	<u>% Other</u>	<u>Contract Status</u>
Boston Teachers Union (2 bargaining units)	4,479	36.0	64.0	71.2	20.8	5.4	2.6	Settled through August 1986 (supplemental appropriation required)
Boston Association of School Administrators and Supervisors	285	74.8	25.2	78.5	18.3	2.1	1.1	Expired 6/30/83
Schools Department Planning and Engineering Local 285	35	100.0	0.0	96.8	3.2	0.0	0.0	Expired 8/31/83
Boston Public Schools Custodians (store deliverymen and storekeepers)	481	99.2	0.8	91.7	8.3	0.0	0.0	Expired 8/31/83
Administrative Guild (telephone operators)	316	2.4	97.6	86.3	8.3	2.0	3.4	Expired 8/31/83
Supervisors of Attendance (Mass. Teachers and National Education Association affiliations)	10	100.0	0.0	90.0	10.0	0.0	0.0	Expired 8/31/83
Lunch Hour Monitors	240	NA	NA	NA	NA	NA	NA	Expired 8/31/83
Food Service Association Supervisors	3	NOT STATISTICALLY MEANINGFUL						Expired 8/31/83
Cafeteria Workers, AFSCME, Council 93	400	1.6	98.4	81.7	18.0	0.0	0.3	Expired 8/31/83
Boston Schools Police Association	86	NA	NA	NA	NA	NA	NA	Expired 8/31/83
TOTAL MEMBERSHIP	16,812							

* Not Available

** One Female

FOOTNOTES:

1. Demographic breakdowns by bargaining units unavailable.
2. AFSCME demographic figures based on a sample of 2,488 union members (73% of bargaining unit membership) for whom union dues payroll deductions were recorded on 11/4/83. Hospital employees were not included on the printout. Figures, therefore, may not be representative of overall union demographics.
3. Table does not contain figures for the inactive (no members), but duly certified units, including the Plant Administration Association and Bus Monitors Association.

SOURCE: Membership totals and demographic percentage breakdowns contained in Table I represent the Financial Transition Team's best estimates, as computed from City of Boston, Administrative Services Department, Data Processing Division records, conversations with union members, Office of Labor Relations files and, where available, School Department records.

current bargaining process in detail, presents the terms of contracts between the largest Boston municipal employee unions and the City and projects the FY 1984 costs of all collective bargaining settlements. Finally, the Chapter compares Boston's contract negotiation process and budgetary practices to those of four other major eastern U.S. cities. Based on that comparison, it recommends that the Administration make significant changes in its present approach to collective bargaining, particularly in the area of funding of incremental costs of contract settlements.

THE FISCAL MANAGEMENT OF COLLECTIVE BARGAINING COSTS

From a fiscal standpoint, it is unfortunate for Boston that nearly all collective bargaining agreements between the City and the unions representing City employees are subject to full or partial renegotiation in FY 1984 or earlier. One set of contracts expired on June 30, 1983 and has yet to be renegotiated. Another set will not expire until the end of FY 1984 but requires renegotiation of wage levels during FY 1984. In addition, the School Department Bargaining Team and the BTU recently settled a contract with an estimated incremental cost of \$17 million for FY 1984. Only the Boston School Traffic Supervisors' Association and the House Officers' Association (hospital interns and residents) have firm agreements through FY 1984. The impact of collective bargaining increases will be especially severe this year in light of the projected City agency appropriations deficit in FY 1984 and similarly pessimistic projections for FY 1985.

THE COLLECTIVE BARGAINING PROCESS IN BOSTON

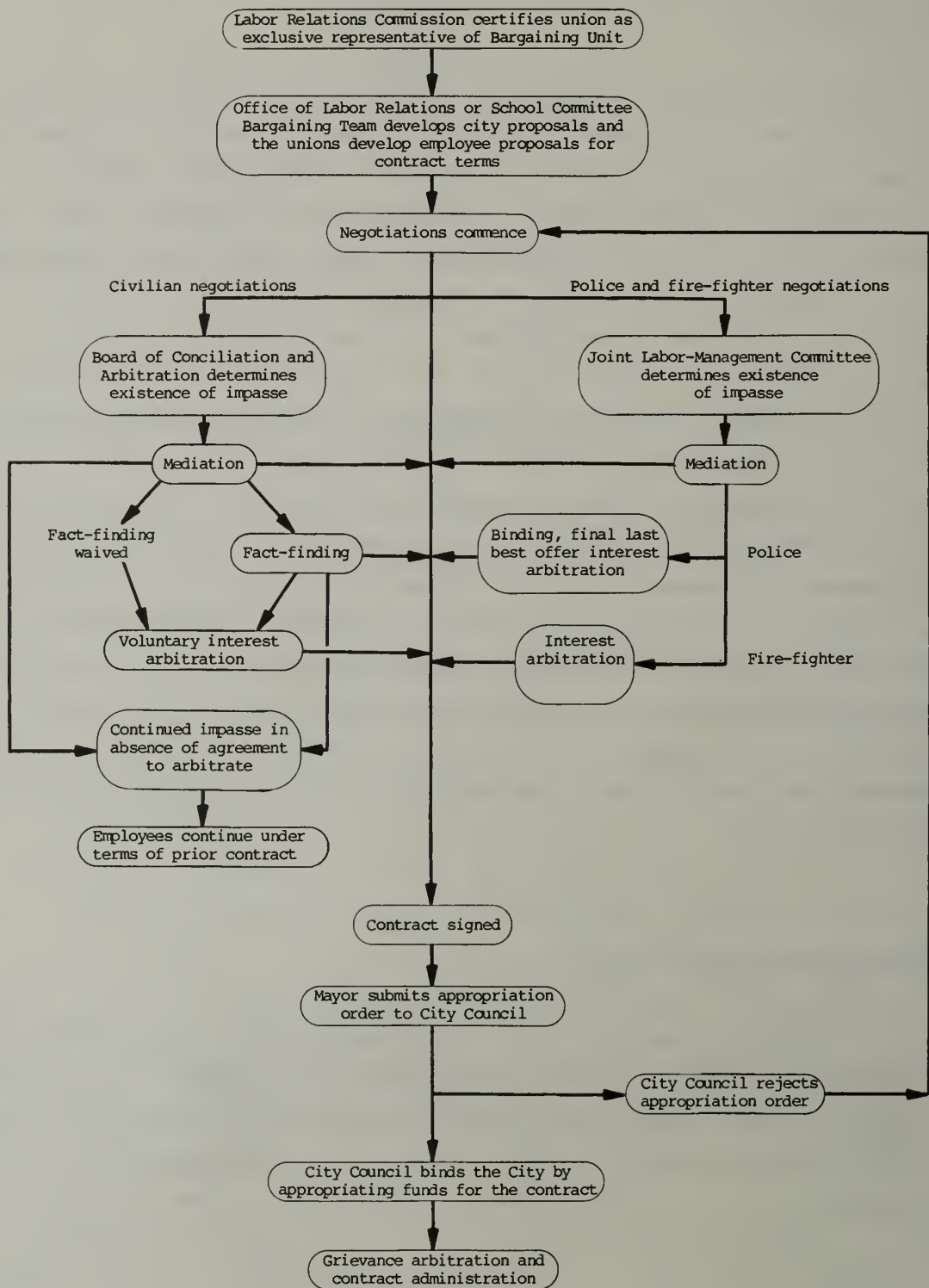
Governing Law

The Public Employee Labor Relations Act (Chapter 150E of the Massachusetts General Laws) governs bargaining between the City of Boston and the labor organizations representing City employees. Under this comprehensive law, administered by the Massachusetts Labor Relations Commission (the "Commission"), all non-managerial state, county, and municipal employees may bargain collectively on questions of wages, hours and other terms and conditions of employment. Employees are considered "managerial" only if they participate to a substantial degree in the preparation for or conduct of collective bargaining on behalf of a public employer or if they are substantially responsible for exercising independent judgment in administering collective bargaining contracts or the City's personnel system. "Managerial" employees, elected and appointed officials, including board and commission members and department heads and representatives of the employer, may not organize into bargaining units. As noted above, the Act prohibits strikes by municipal employees.

Employee Representation

In Boston, as in all Massachusetts communities, the collective bargaining process begins with the determination of appropriate bargaining units and recognition by the City of an employee organization (union) as the exclusive representative of all employees in the unit. (See Display 1). To be "appropriate," a bargaining unit must be composed of employees who have a community of interests. This requirement is intended to safeguard the rights of all employees to

THE MUNICIPAL EMPLOYEE COLLECTIVE BARGAINING PROCESS
CITY OF BOSTON



Display 1

efficient and effective representation. No unit may include both professional and non-professional employees unless, by majority vote, the professional employees agree to join. To obtain recognition as the exclusive representative of an appropriate unit, a union must either receive voluntary recognition by the City or petition the Commission for certification of the union as exclusive representative. The City cannot recognize a union as the exclusive representative unless it has been so designated by a majority of employees in the unit. Sometimes, two or more unions compete for the right to represent a particular unit. The Commission resolves such disputes by holding elections and certifying the union which receives a majority of the votes cast.

A duly-certified union has the right to negotiate agreements covering wages, work hours, fringe benefits, and other terms and conditions of employment for all employees in the unit. Members of a unit may not be required to join the union or participate in union activities, but they must pay a service fee to cover the union's cost of collective bargaining and contract administration. In Boston, the City Treasurer deducts these service fees from agency payrolls and pays the deducted funds directly to each union. Like majority shareholders of corporations who have a fiduciary duty to safeguard the interests of other shareholders, the exclusive representative of a bargaining unit has a duty to represent all of its employees without discrimination and without regard to union membership or activity.

Occasionally, some or all employees challenge the "representativeness" of their union by filing a petition with the Commission. There have been two such successful challenges by Boston employees in recent years, both involving the police unions. In 1982, the Boston Police detective patrolmen broke from the BPPA and formed the Boston

Police Detectives Benevolent Society patrolmen's unit. Police Superior Officer Detective supervisors also broke from the Boston Police Superior Officers Federation and formed a separate Superior Officers unit, also represented by the Detectives Benevolent Society. In addition, the National Association of Government Employees (NAGE) attempted unsuccessfully in 1982 to form a separate bargaining unit for Long Island Hospital security guards; they continue, however, to be represented by AFSCME.

Several traditionally managerial employees have discussed the formation of a middle management bargaining unit. However, no petition for certification of such a unit has been filed with the Commission. The formation of a management bargaining unit would appear to violate the State Public Employee Labor Relations Act.

Employer Representation

Once certified as exclusive representatives, City employee unions have the right and duty to negotiate with their employer. By state law, the Mayor or his designee represents the City in negotiating collective bargaining agreements with all City employees other than School Department employees. The 13-member School Committee represents the School Department in its contract negotiations. (See Display 1.)

City Departments--In practice, the Mayor does not play a direct role in the contract negotiation process. By City ordinance, the Office of Labor Relations (OLR), a division of the Administrative Services Department, represents the Mayor with respect to all contracts (except, in 1983, Boston City Hospital nursing contracts), in all employment-

related litigation (other than discrimination suits) and in other aspects of the employment relationship. Frequently, OLR hires outside counsel to conduct the negotiations. Outside counsel represented the Mayor on various issues which arose during FY 1981 and 1982, including layoffs and appeals procedures, and in FY 1982 and 1983 contract negotiations with AFSCME and Local 285. Outside counsel also represents the Police Commissioner on a number of other matters, including negotiations over the FY 1983 police deployment plan.

In addition to contract negotiation and court representation, OLR is responsible for interpreting contract terms, notifying City department personnel of the terms and conditions of employment for all employees, training managers to minimize contract violations and to resolve disputes informally, and acting as liaison between unions and departmental management.

Despite its importance, OLR has been plagued by staff shortages, including vacancies in top supervisory positions. As Table 2 illustrates, OLR staffing has declined dramatically since 1978, when the Office had a supervisor, four Assistant Corporation Counsels (negotiators and in-court representatives), two Labor Relations Analysts and three clerical staff as well as several part-time law students. As of January 1, 1984, the OLR had no supervisor, one Deputy Director, and only one Assistant Corporation Counsel, leaving the City without an effective, in-house negotiating arm at a time when all its contracts are due for renegotiation. (See Table 2 on following page.)

TABLE 2

OFFICE OF LABOR RELATIONS
STAFFING PATTERN
(calendar years)

<u>Positions</u>	<u>1978</u>	<u>1983</u>	<u>1984</u> ¹
Supervisor of Labor Relations ²	1	0	0
Deputy Director	0	1	1
Assistant Corporation Counsel	4	5 ³	1
Labor Relations Analysts	2	1	1
Clerical Staff	<u>3</u>	<u>2</u>	<u>2</u>
 TOTAL EMPLOYEES	 <u>10</u>	 <u>9</u>	 <u>5</u>

1 As of January 1, 1984.

2 Chapter 1, City Ordinance 5, Section 4 provides that the "supervisor of labor relations shall, under the direction of the Mayor and in consultation with the director of administrative services, review all aspects of the labor relations of the City and make recommendations for their improvement, represent the Mayor in all collective bargaining in which the City is involved, and by himself or through assistants appear in all grievance, arbitration and court proceedings involving labor relations."

3 The office had three Assistant Corporation Counsels for most of 1983, two of whom subsequently resigned.

SOURCE: Office of Labor Relations, Administrative Services Department, City of Boston.

This situation is as upsetting to the unions as it is unfortunate for the City, because no OLR staff member has the formal authority to represent the City and to negotiate agreements with the unions. By City ordinance, such authority is vested in the Supervisor of Labor Relations, under the direction of the Mayor. This position along with at least two Assistant Corporation Counsel posts should be filled immediately to ensure that the City is directly and adequately represented in collective bargaining negotiations this spring.

School Departments--Like the Mayor, the School Committee delegates responsibility for conducting collective bargaining negotiations to an administrative unit and, in many cases, to outside legal counsel retained under a personal services contract. Direct responsibility for the negotiations with the School Department employee bargaining units rests with the School Committee Bargaining Team. The bargaining team includes labor attorneys and personnel/labor relations analysts from the School Department, and an outside attorney who serves as chairman. Generally, the Mayor and OLR play no role in School Department negotiations. At the Mayor's direction, OLR representatives did attend the BTU negotiations for the FY 1976-1978 and FY 1978-1980 contracts, but did not attend either the FY 1980-83 or the recently completed FY 1983-86 sessions.

Contract Negotiation

OLR, on behalf of the Mayor, and the School Committee Bargaining Team, on behalf of the School Committee, are responsible for meeting and negotiating with the employee bargaining units. Both parties have a duty to bargain with each other in good faith and to participate in efforts to resolve impasses in negotiations. Agreements reached between the parties are valid only to the extent that they govern wages, hours and terms and conditions of employment; they must not intrude into areas of "management prerogative." Of course, what is and is not "management prerogative" is an open question frequently decided by the courts. In 1982, for example, the state Supreme Judicial Court ruled that a collective bargaining provision restricting the School Committee's ability to determine annually the size of its teaching staff was an unenforceable invasion of exclusive management prerogative.

Before commencing negotiations, OLR and the School Committee Bargaining Team (the "Team") canvas Departmental managers and school principals for their opinions of the existing contracts. Line managers submit critiques of the contracts, focusing primarily on non-wage items (work rules, for example), and these critiques are considered when the OLR and the Team develop initial negotiating proposals. Typically, the Mayor and the Vice-Mayor review all proposals before they are offered to the unions. Similarly, the School Committee formally adopts proposals developed by its Team prior to submission to union representatives.

Although the parties may conduct formal bargaining sessions, much of the negotiation takes place in smaller, informal meetings between OLR's negotiators, typically outside counsel, and principal union officials. Though the BTU was the first union representing a large number of employees to settle this year, School Department settlements have never established a pattern throughout the City. Historically, the AFSCME and SEIU Local 285 have set the pattern for settlements between the City and other civilian employee representatives. Typically, AFSCME settles first, followed within several weeks by Local 285. Both organizations represent the same kind of employees in the same kind of agencies and thus almost always agree to identical wage terms, thereby setting a pattern for all remaining civilian negotiations. Nurses, however, have received more favorable wage treatment in recent years principally because of the nationwide nursing shortage. Partly as a result of this differential treatment, the City has been able to hire 200 additional nurses.

The two non-civilian employee groups--police and fire--follow a somewhat different negotiating process than other unions. As in other cities around the nation, Bos-

ton's police and fire union representatives seek parity. The Commissioners of Police and Fire take a more active role in negotiations than do other department heads, meeting informally at City Hall with the unions and OLR negotiators.

Impasse Resolution

If the City and the unions reach agreement, they may sign a contract covering no more than three years. Most contracts for City of Boston employees are for two years. If the parties fail to reach agreement after a reasonable time, then either party or the parties together may petition the state Board of Conciliation and Arbitration (the "Board") for assistance in resolving the impasse if it involves civilian employees or the Joint Labor-Management Committee if it involves municipal police or firefighters (See Display 1). The Joint Labor-Management Committee is free to refer disputes involving police and firefighters to the Board for resolution. However the Board may not accept any petition from a party to a police or fire negotiation if the petition has not first been reviewed by the Committee.

If the Board, or the Committee, in the case of police and firefighter contract negotiations, determines that an impasse exists, it will appoint a mediator, or the parties may agree to select their own mediator, who then works with the parties in an attempt to resolve their disagreements. As of last month, both AFSCME and Local 285 were mediating their wage negotiations with the City.

If the impasse continues after mediation, either or both parties to a dispute involving civilian unions may petition the Board to initiate so-called "fact finding proceedings". Once such a petition is filed, either the Board

appoints -- or the parties agree upon -- a person to serve as a fact-finder. The fact-finder has 30 days to investigate the dispute and to submit recommendations for resolution of the impasse to the Board, though, in practice, the deadline is always waived by the parties. If the impasse remains for ten days after the fact-finder submits his report, the Board must make the report public and the parties must either resolve the impasse or return to the bargaining table. As of January 1, 1984, only one union, the 15-member Graphics Artists International Union, Local 600, was in the fact-finding process. The major issue in the Local 600 fact-finding relates to promotions and work assignments.

The parties often agree to waive the fact-finding procedure because of its advisory, non-binding nature and, instead, petition the Board for arbitration of the impasse. The arbitration of such impasses is called "interest arbitration".

Under the arbitration procedure applicable to disputes involving all Boston employees other than policemen and firemen, the parties may but are not required to agree to submit their disputes to the Board for arbitration and the arbitrator is free to order a settlement which he deems fair, regardless of the parties' final negotiation positions. Though either party may refuse to submit the dispute to arbitration, once the parties agree, the arbitrator's decision, called an "award", is binding on the City and the employee representative, provided the City Council or the School Committee authorized the arbitration proceedings. Since parties in school employee and other non-civilian negotiations are not required to arbitrate their disputes, an impasse in such negotiations could continue forever. In such cases employees continue to receive the pay and bene-

fits provided under the prior, expired contract until a new contract is negotiated. Before making changes in employee wages, benefits or other terms covered by the previous agreement, the City has a duty to bargain with the union on a new contract.

As noted above, disputes involving policemen and firemen are submitted to a Joint Labor Management Committee, a 14-member panel appointed by the Governor which is composed of six firefighter and police union leaders, six local government representatives and two members nominated by the other twelve members. If, after the failure of the Committee's mediation efforts, the Committee concludes that the process of collective bargaining has been exhausted, then either the parties must select -- or the Committee must nominate -- a neutral arbitration panel to resolve the impasse. The Committee is free to determine the rules and procedures for arbitration.

Prior to the passage of Proposition 2 1/2, the state statute provided that the Committee could resolve impasses in collective bargaining involving municipal police and firefighters by so-called last best offer, final and binding arbitration. Under the last best offer procedure, the arbitrator was required to select either the City's final proposal on all disputed issues or the union's final proposal on all disputed issues. This procedure greatly limited arbitrator discretion, proved costly for many communities, and in 1980 was repealed by Proposition 2-1/2.

Under the terms of their latest contract, the Boston Police, represented by the BPPA, and the City have agreed that either party to their negotiations may force all disputed issues to final and binding interest arbitration. This is potentially a costly agreement for the City and is

of questionable validity in light of Proposition 2-1/2 which, as noted above, repealed a similar statutory procedure then applicable to all police and firefighter arbitrations.

Funding Collective Bargaining Costs

Once the City and the union sign an agreement, the Mayor has 30 days to submit a supplemental appropriation order to the City Council requesting funding for the incremental cost items included in the agreement, such as wage and benefit increases. If the City Council appropriates the requested funds, the contract is binding on the City. In addition, the Supreme Judicial Court has ruled that an appropriation funding the first year of a multi-year contract constitutes approval by the City of the entire agreement. By law, if the Council rejects the Mayor's request, then the union and OLR or, in the case of school employee contract negotiations, the School Committee Bargaining Team, must meet for further negotiations.

Grievance Arbitration

Formal disputes over the terms and administration of fully executed collective bargaining contracts are called grievances. On behalf of the Mayor, OLR represents the City in all grievances filed by non-school employees. School employee grievances are handled separately by the School Department. As Table 3 indicates, most grievances involving non-school employees are resolved prior to a formal arbitration hearing and, of those which do go to arbitration, nearly 70% are decided in the City's favor. (See Table 3 on the following page.)

Decisions against the City cost Boston \$62,708 in FY 1982, the most recent year for which such statistics are available. Similar statistics for school employee grievances were not available for inclusion in this chapter.

PATTERNS IN PAST COLLECTIVE BARGAINING SETTLEMENTS

Civilian Employees (Exclusive of School Department Employees)

Historically, the two largest civilian unions, AFSCME, Council 93 (3415 employees) and SEIU, Local 285 (2975 employees) have settled on similar or identical wage increases in their collective bargaining contracts with the City. As Table 4 indicates, collective bargaining agreements were reached with both unions which provided for a \$300 annual lump sum payment and a 2% to 3.3% wage increase in three successive years, FY 1978 through 1980. (See Table 4 on the following page.)

Similarly, both unions accepted wage increases of 7% or \$700 (whichever is greater for each individual employee) in FY81 and FY82 and a 6% or \$700 increase (whichever is greater) in FY83. In addition, in FY 1981 the AFSCME city-wide unit negotiated a longevity program providing for the annual payment of awards to employees based on their years of service with the City. Other AFSCME bargaining units and the SEIU added similar programs in FY82 and FY83. As Table 4 illustrates these wage and longevity award settlements have set the pattern for all other collective bargaining agreements with the City, with the exception of SEIU nursing contracts. (See Table 4).

Of course, wage and longevity program awards represent only two of the items contained in the City's agreements with employee unions. The City-wide SEIU contract

TABLE 3

CITY OF BOSTON¹
GRIEVANCE ARBITRATION STATISTICS
FY 1981-1983

Employee's Union	Total Cases	Percentage of Grievances to Arbitration	Number of Cases Settled	Number of Decisions Rendered	Percentage of Decisions In City's Favor	Number of Decisions Pending as of December 1983
BPPA	222	71.2%	13	72	78.5%	73
Local 285	261	30.7%	14	33	37.9%	33
AFSCME	338	18.1%	4	20	75.0%	37
Boston Police Superior Officers	61	18.0%	1	1	100.0%	9
Boston Public Library Professional Staff	29	24.1%	1	2	50.0%	4
IAFF	21	52.4%	3	4	75.0%	4
TOTAL	932	35.2%	36	132	68.2%	160

SOURCE: Office of Labor Relations, Administrative Services Department,
City of Boston

¹ Figures do not include school employee grievances.

health and life insurance benefits, and tuition reimbursement for certain technicians. A "differential" is a salary premium paid to an employee for certain, specified duties, or special hours of work and is expressed as a percentage of the employee's base pay. In addition, the agreement includes a "partial" sick leave redemption provision under which employees are paid for up to one-third of their unused sick days currently limited to 15 days per year. The maximum redemption of 5 days is an incentive to minimize employee absences. Other civilian collective bargaining agreements contain similar provisions. Though no detailed estimates of the cost of these benefits are available, the Boston Municipal Research Bureau has estimated that such employee benefits represent 20% to 30% of total personnel costs.

Uniformed Forces

The majority of Boston's police and firefighters belong to the BPPA (1500 members) and the IAFF (1657 members) respectively. Like police and firefighter unions in other cities, the BPPA and the IAFF seek parity in their negotiations with the City. Typically, they also seek wage increases slightly in excess of those negotiated by civilian unions. The BPPA and the City have yet to agree on a contract for the union which covers FY 1983.

As is the case in civilian agreements, salary differentials and non-wage benefits represent a substantial portion of the cost to the City of police and firefighter contracts. A Boston police patrolman, for example, is eligible for night shift differentials (9% of base salary), special assignment pay (varies from \$6.00/week to \$19.50/week according to assignment), weekend differentials

TABLE 4

CITY OF BOSTON
PERCENTAGE WAGE INCREASES¹
COLLECTIVE BARGAINING AGREEMENTS
(plus any lump sum payments per member)
FY 1978-1984

Union/ Bargaining Unit	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Fiscal Year 1983	Fiscal Year 1984
1. AFSCME							
-Deer Island		2.8% + \$300	2.7% + \$300	N/A	N/A	6% + longevity	Wage opener
-Charles Street Jail Officers		2.8%-1.7% + \$300	2.7%-1.6% + \$300	N/A	N/A	Same as above	Wage opener
-Library, Non-Prof.		\$300	\$300	7% or \$700 which- ever is greater	7% or \$700 which- ever is greater	6% or \$700 which- ever is greater	Wage opener
-City-Wide Unit	2.5% + \$300	2.45% + \$300	2.4% + \$300	Same as above + longevity	7%	Same as above	Wage opener
2. SEIU							
-City Wide Unit	3.3% + \$300	3.2% + \$300	3.1% + \$300	Same as above, no longevity	7% or \$700 + longevity	Same as above	Wage opener
-County Unit	\$300	Same as above	Same as above	Same as above	Same as above	Same as above	Wage opener

TABLE 4
(continued)

Union/ Bargaining Unit	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Fiscal Year 1983	Fiscal Year 1984
-Licensed Practical Nurses		not available			5% salary + 5% differential	13%	Wage opener
-Registered Nurses		not available			Same as above	Same as above	Same as above
-Public Health Nurses			5%			Same as above	Same as above
3. Environmental Sanitation Inspectors Assoc.		Same as above	3.1% + \$300	Same as above	7% or \$700 which- ever is greater	6.2% + longevity Program increase	Wage opener
4. Boston Public Library Prof. Staff Assoc.			5% + longevity	7.4% + \$500	7% + longevity increase	6% or \$700 which- ever is greater + longevity increase	Wage opener
5. Boston Typographical Union No. 13			5%	7%	7%	6% + longevity program	Open

TABLE 4
(continued)

Union/ Bargaining Unit	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Fiscal Year 1983	Fiscal Year 1984
6. Graphic Arts Union No. 67		not available		7% + \$500	7% + longevity	6% or \$700 which- ever is greater + longevity increase	Wage opener
7. Graphic Arts Union No. 600		not available				same as Wage above + opener longevity	
8. International Brotherhood of Electrical Workers Local 103			4.2%	7% or \$700 which- ever is greater	7% or \$700 which- ever is greater	Open	Open
9. International Assoc. of Fire Fighters Local 718				7% + longevity	8%	6%	Open
10. International Brotherhood of Firemen & Oilers Local 3				Same as above	Same as above	Same as above	Open

TABLE 4
(continued)

Union/ Bargaining Unit	Fiscal Year 1978	Fiscal Year 1979	Fiscal Year 1980	Fiscal Year 1981	Fiscal Year 1982	Fiscal Year 1983	Fiscal Year 1984
11. Boston Police Patrolmen's Assoc.				Same as above	Same as above	Open	Open
12. Boston Police Superior Officers Federation		.			8% + \$450	Open	Open
13. House Officers Association		5%	5%	10%	6.8%	N/A	Settled 5%
14. School Traffic Supervisors					7% + \$75	Same as above	Same as above

SOURCE: Office of Labor Relations, Administrative Services Department,
City of Boston

1 Table IV excludes contracts for School Department employee bargaining units, the recently formed Boston Police Detectives Benevolent Society bargaining units, and the now defunct Health and Hospitals Dental Association Unit.

(4.56% of base), holiday pay (one extra day's pay), vacation work (time and one-half plus one extra compensation day), unscheduled overtime allowances (double time), and the more standard vacation, health and life insurance, and uniform allowances. Upon their retirement, patrolmen may "buy back" (redeem) up to 30 unused sick leave days. In addition, they are eligible for certain education incentive programs (for example, annual payments of \$950 for an Associates degree, \$1300 for B.A., and \$1900 for a M.A.) and for leave without loss of pay for veterans' conventions, veterans' funerals, Red Cross, medical and promotional exams, inservice training and family deaths. Collective bargaining agreements for the City's firefighters include some of the same benefit provisions, as well as a 4.75% differential for hazardous duty and four personal days redeemable annually. Firefighters cannot redeem sick time annually, have no weekend differential, and their night shift differential is only 5.3%. In addition, present firefighter contracts do not provide for education incentive payments.

School Department Employees

As noted earlier, negotiations between the City and School Department employees are conducted by the Boston School Committee, not by the Mayor's Office of Labor Relations. This Chapter does not review past wage settlements between the School Committee and each of the School Department employee unions. It does contain projections for the City-wide cost of collective bargaining in FY84, which were based on estimates of the FY84 costs of School Department collective bargaining agreements, including the recently settled BTU contract. The BTU contract, which in the past has set a precedent for settlements with other school employees, included a 5% annual wage increase for all teachers for the 1983-84, 84-85 and 85-86 school years.

Additional terms of the BTU contract, as announced by the School Committee, include the following:

General Provisions

1. Eliminate third step cap for step advancement for non-tenured teachers.
2. Subsequently laid off teachers may resign prior to August 31 with severance pay but with forfeiture of recall rights and curtailment of any unemployment compensation.
3. Class size maxima.
4. Annual sick leave buyback.
5. Third personal day, non-cumulative, in exchange for elimination of laundry list.
6. "Cooperation" between the Committee and BTU to eradicate the asbestos problem.
7. "Cooperation" between building administrator and teachers in ordering supplies.
8. Health & Welfare contributions for paras: \$100, \$200, \$300.
9. Maternity and child care leave for paras.

Layoff, Recall and Transfer

1. Program areas -- teachers and paras.
2. Teachers and paras must be qualified.
3. More flexibility for building administrators in picking teachers from the excess list.
4. No bumping in excessing.
5. Exemption from strict seniority when classes are consolidated after November 1.

6. Stricter time limits on accepting a recall offer.
7. More flexibility for building administrators in filling vacancies by voluntary transfer (pick one out of three most senior).

General Management Improvements

1. Longer and stronger management rights clause.
2. Stronger affirmative action clause.
3. Hiring rate flexibility.
4. Elimination of retroactive provisional contracts.
5. Right to require doctor's certificate to control sick leave abuse.
6. Stricter notice requirements for taking, extending or returning from a leave of absence.
7. "Unsatisfactory" coaches lose grandfather protection.
8. "Excellent" grade in performance evaluations.
9. More flexible school calendar.

More Work Time

1. Two extra days in teacher work year.
2. Five two-hour extra afternoon meetings, plus two evening parent meetings.
3. Three extra days in teacher work year for Group II.

Fringe Benefits

1. Two hundred fifty-day cap on sick leave.

2. Reduction in Health & Welfare contributions for teachers in the first and second contract years.
3. No increase in contract hourly rate for life of contract.
4. Fixed stipends may be paid on externally funded programs.
5. Course credits for lane advancement must be job-related and no law degrees creditable after June 30, 1985.
6. Eliminate laundry list of personal days.
7. Elimination of mandatory ETL overtime.

CURRENT BARGAINING ISSUES

The major issues involved in the City's collective bargaining negotiations with City unions, other than those representing School Department employees, are as follows.

AFSCME

The present AFSCME contract covering the City-wide bargaining units runs through FY 1984, with a "reopener" clause for negotiations to commence March 15, 1983. In July of 1983, the Union proposed an increase in the salary schedules for all bargaining units. The minimal wage increase proposed by the Union was 3%. The negotiations became deadlocked and resulted in an attempt of mediation. As of January 1, 1984, an agreement has not been reached. Another issue under consideration by the union is the deletion of a contract clause which gives the appointing authority the "sole judgment of qualifications and abilities" of employees and applicants. The union believes this clause permits managers to make arbitrary, capricious and unreasonable decisions relating to hiring, promotions and temporary job

reassignments. Other matters which are being contemplated include expanded bereavement leave, a "paternity" leave, new health and safety rules, and additional sick and personal days.

SEIU, Local 285

Present SEIU contracts covering all five City Department bargaining units run through FY 1984, but they contain wage "reopener" clauses providing for renegotiation commencing last July 1, 1983. At the time, the union proposed revised salary schedules for all bargaining units. If it had been accepted by the City, the proposal would have resulted in a minimum of a 5% wage increase for clerical, technical and professional personnel and a 9% raise for nurses. Negotiations over the proposals stalled and the union went to the Board of Conciliation and Arbitration, which assigned a mediator to attempt to resolve the impasse. As of January 1, 1984 the contract negotiations were still in mediation. Other issues of interest to the SEIU membership, and scheduled for study by union/management committees set up by the present contracts include a training and career ladder, uniform allowances similar to those received by police and fire, day-care, health and safety rules, a four-day week, and employee productivity. The union is concerned with the delay in the commencement of these studies.

IAFF Local 718

Since the expiration of their contract on June 30, 1983, the IAFF has submitted several negotiating proposals to OLR, but no formal bargaining sessions have been held.

In addition to resolving issues associated with firefighter layoffs, the union is interested in obtaining an educational incentive program for its membership similar to one contained in the most recent BPPA contract. Under the BPPA program, police patrolmen receive an additional \$950 per year for an Associate's Degree, \$1300 per year for a B.A. and \$1900 for a Master's Degree.

BPPA

According to BPPA officials, the patrolmen met with the City in July and again in December to attempt to settle the FY 1983 contracts, but have not made proposals for the FY 1984 contract period. For the FY 1983 contracts, the union appears to want a 6% pay increase, holiday pay calculated at 1/4 of a week's salary instead of the present 1/5 week payment, and language providing for hazardous duty differential for one-man patrol car shifts. Three similar items are contained in the firefighters contract for FY 1983.

Boston Police Detectives Benevolent Society

This newer union broke from the BPPA and Superior Officers Association in 1982 because its membership, including detective patrolmen and detective superior officers, felt unable to assert its interests within the Police Department bargaining process. The patrolmen detectives' biggest concern is the detective differential, currently at \$24 per week. The union's long-term goal is a \$50 per week differential above the base salary of police patrolmen. The Superior officers are dissatisfied with their differential as well. Like the BPPA, the detectives have yet to settle their FY82-83 contracts. In July, the City made an offer of

a 6% wage increase plus a \$5.00 per week increase in detective differential, but withdrew the offer shortly after its proposal. Counsel to the union has indicated that it is filing an Unfair Labor Practice petition against the previous City administration for this action.

Boston Police Superior Officers Federation

This union, representing sergeants, lieutenants and captains, tends to reach agreements with the City which are based on the BPPA wage levels. Under their latest contract, covering FY 1982, salaries for sergeants were set at 23% above a patrolman's computed average salary (this percentage covers longevity and educational differentials); lieutenants received 16.5% above a sergeant's computed average; and captains received 16.5% above a lieutenant's average. Like other police unions, the Superior Officers have yet to settle their FY 1983 contract. Their goal for that contract is to increase the sergeant's differential from 23% to 24.5%. The union met with the City in December, but negotiations have stalled.

Other

Most of the smaller civilian unions are waiting for AFSCME and Local 285 contract settlements before formally bargaining over their FY 1984 wage renegotiations and FY 1985 contracts. However, the 21-member Graphic Arts Local 600 did commence negotiations with the City. The negotiations reached an impasse over promotion policy and work assignments and are now in fact-finding. In addition, the International Brotherhood of Electrical Workers, like the police unions, received a 6% offer from the City in July which the City later withdrew.

School Department Unions

Last month, the BTU settled its contract through FY 1986, agreeing to a salary increase of 5% per year for three years. According to School Department officials, no other School employee bargaining unit has settled its FY 1984 contract, although the School Committee Bargaining Team has drafted proposals for the 316-member Administrative Guild unit.

ESTIMATED FISCAL IMPACT OF 5% CITY-WIDE WAGE SETTLEMENT

The total cost in FY 1984 of settling all outstanding collective bargaining negotiations, including wage "re-opener" negotiations, is estimated to be \$30.7 million. Table 5 presents the calculations which form the basis for this estimate, including the cost impact of the wage increase for the major City unions and the projected costs of accompanying increases in non-wage benefits.

INTER-CITY COMPARISONS

In light of the significant impact collective bargaining costs have on Boston's fiscal health, the collective bargaining and contract funding procedures used in four other eastern U.S. cities -- Baltimore, Hartford, Providence and New York City -- are surveyed here. Like the Boston municipal work force, most public employees in these cities are represented by unions who collectively bargain over employee wages, benefits and conditions of employment.

TABLE 5

INCREMENTAL FISCAL IMPACT IN FY 1984 OF
FIVE PERCENT CITY-WIDE SETTLEMENT
(dollars in millions)

	<u>Retro-1</u> <u>active</u> <u>Payments</u>	<u>5% Pay-</u> <u>Raise for</u> <u>FY 1984</u>	<u>Other²</u> <u>Benefit</u> <u>Increases</u>	<u>Total</u>
<u>City/County Departments</u>				
AFSCME	--	2.5	.5	3.0
SEIU, Local 285	--	2.0	.4	2.4
BPPA	2.0	1.7	.3	4.0
Superior Officers	.5	.4	.1	1.0
IAFF, IBFO	--	2.0	.4	2.4
Others	<u>.4</u>	<u>.4</u>	<u>.1</u>	<u>.9</u>
Subtotals	2.9	9.0	1.8	13.7
<u>School Department</u>				
BTU and all other units	<u>6.3</u>	<u>7.5</u>	<u>3.2</u>	<u>17.0</u>
TOTAL INCREMENTAL FISCAL IMPACT	9.2	16.5	5.0	30.7

SOURCE: Based in part on Office of Labor Relations and
School Department estimates.

-
- 1 Assumes 6% wage settlement for unsettled FY 1983 City/
County employee.
- 2 City/County Department figures for other benefit in-
creases assume 5% increases in non-wage items and
assumes the non-wage items equal 20% of wages.

Baltimore

The major difference between the Baltimore City collective bargaining process and the Boston experience is the method by which Baltimore integrates their contract agreements into the City's annual budget process. In Baltimore, all collective bargaining between unions and the City is done in conjunction with budget preparation. All contract negotiations must be completed by March so that the incremental costs resulting from wage and benefit increases may be included in the Board of Estimate's city-wide budget submitted to the City Council in May. The Board of Estimate is a five-member executive authority comprised of the Mayor, President of the City Council, Comptroller, City Solicitor and the Director of Public Works. The budget is then enacted before the new fiscal year begins each July 1. This process avoids the need for passage of supplemental appropriations for collective bargaining costs mid-way through each fiscal year, a practice which fosters deficit spending in Boston.

Hartford

The Hartford collective bargaining process is similar to that found in Boston, with the City Manager and his Personnel Department counsel representing the municipality in negotiations with that City's 2400 union employees. As in Boston, Hartford teachers negotiate separately with the City's Board of Education. Teacher contracts are settled by binding arbitration. Unlike Boston, Hartford expressly provides for prospective collective bargaining cost increases in its budget by estimating the percentage wage settlement for negotiations scheduled for that year. The City Budget Office calculates the resulting cost increase and places

funds in a "wage and fringe improvements" account. When the collective bargaining agreements are reached, the City uses the reserve to fund the increases and makes up any shortfall by transferring funds from other accounts or, if necessary, by supplemental appropriations. Before passing a supplemental appropriation, however, the Hartford Finance Director must certify that the additional funds are available. No similar requirement existed in Boston until June 1983, when the Massachusetts Department of Revenue imposed the requirement as a condition precedent to state approval of the City's property tax levy.

Providence

The Providence collective bargaining process is similar to Boston's. Most civilian unions and the police and firefighters bargain with the Mayor, while the City School Board handles teacher negotiations. Police and firemen seek parity, and their negotiation impasses with the City are resolved by binding arbitration. Teachers and other municipal employees have binding arbitration on all items not involving the expenditure of money (for example class size, and seniority rules). As in Boston, collective bargaining negotiations are not integrated with the budget process, and typically require supplemental appropriations.

New York City

Since the fiscal crisis of 1975, collective bargaining negotiations in New York have been held City-wide, on a "coalition" basis. Wage increases have been restricted by the City's ability to pay. All municipal employee contracts have approximately the same expiration date and the

unions bargain as a coalition on all economic issues. The coalition includes teachers' unions, which until recently held separate negotiations with a State Public Employee Relations Board. 70 bargaining units representing 250,000 employees meet with the City to settle all economic items, including wage increases and health insurance benefit terms. Police and fire have wage parity, by statute, and tend to receive a higher percentage increase. Each unit then bargains separately with the Mayor's Office of Municipal Labor Relations. A seven-member Office of Collective Bargaining appointed by union and management settles disputes over the permissible scope of contract terms and serves as an impartial peace keeper for all municipal collective bargaining.

When negotiations break down, the impasse is resolved by an Impasse Panel. By law, the City's Financial Control Board set up in 1975 has the right to appear before the Panel. The Impasse Panel must give "substantial weight" to the City's ability to pay.

As in Hartford, New York City sets aside funds for anticipated costs of collective bargaining in a reserve account contained in its annual budget. This year, the reserve account contains 2% of the City's payroll. In addition, the City projects collective bargaining cost increases for two years and includes these projections in its four-year financial plan.

RECOMMENDATIONS

1. The new Administration should fill the position of supervisor of the office of labor relations and hire two additional assistant corporation counsel as soon as possible to ensure that the City has an effective in-house representative in negotiations and contract administration in time to prepare for spring negotiations.
2. To comply with the City's agreement with the Revenue Department, the Mayor and City Council should halt the practice of filing supplemental appropriation orders without making corresponding budget cuts or determining the existence of additional revenue. The Mayor should work with the unions and the City Council to integrate the collective bargaining process with the budget process, as is currently practiced in Baltimore. The City and unions should renegotiate the termination dates of their agreements so that all contracts end on the same date, in time for inclusion in the budget. Contract termination years should be staggered to avoid the burden of simultaneous negotiations with all unions in a single year. All unions whose contracts expire in a given year would still bargain with the City on a "coalitional" basis.
3. To enforce the new contract negotiation deadlines discussed above, the City should enact an ordinance stating that if collective bargaining contracts are not settled before a certain date they would not be funded until the following fiscal year. In fact, the state law contains a similar provision, but the clause lacks an adequate, city-level enforcement mechanism.
4. Following New York City practice since the 1975 fiscal crisis, the Mayor and the School Committee should conduct a single, coalitional bargaining session

over wage increases for all City employees. The practice has avoided "leap-frogging" in New York's collective bargaining process and represents the most equitable approach for City employees.

Schools



INTRODUCTION

Over the past decade, the fiscal performance of the Boston School Committee and School Department has had a major impact on the financial health of the City of Boston. Inadequate managerial controls, dramatically increased personnel costs, demographic shifts in the student population, and the financial burdens imposed by desegregation efforts have all been reflected in a pattern of annual School Department deficits. While notable managerial progress has been achieved under the current Superintendent and his staff, the budgetary requirements of the Boston School Department will continue to influence critically the fiscal options of the new Administration and will require continuous analysis and control.

The primary objective of this chapter is to provide a descriptive assessment of the current financial status of the Boston School Department -- a statistical and analytical overview and guide to the incoming Administration. The goals that guided the analysis were:

- o To provide a descriptive examination of the financial status of the Boston Public School Department as of December 31, 1983.
- o To provide insight into foreseeable future financial issues facing the School Department.
- o To provide an uncomplicated picture of the Boston Public School Department Budget for FY 1983-84 and the factors likely to influence expenditure requirements in the near future.

OVERVIEW OF THE BUDGET DEVELOPMENT PROCESS

The process by which the budget of the Boston School Department is developed strongly influences ultimate expenditures. The formal process is initiated in late October with the submission of the various central responsibility center managers' budget requests, based on the program needs of the various schools and programs. The requests are initially reviewed and coordinated in meetings between the Departmental budget coordinator and the center managers. Following these initial discussions, the revised central office budget is forwarded to the Deputy Superintendent of Finance and Administration. Subsequent changes are recommended by the Superintendent and the School Committee before the budget is forwarded to the Mayor. As submitted to the Mayor, the budget proposal contains two parts:

- 1) The "hold-harmless," or base budget over which the School Committee exercises its autonomous power of appropriation.
- 2) Supplementary requests for funds necessary to fund programmed expenditures above the certified "hold-harmless" level.

THE FY 1984 OPERATING BUDGET

Hold-Harmless Appropriation for 1984

For FY 1984, the total appropriations request for the Boston School Committee was \$238.1 million. This represented an increase of \$3.8 million or 1.6 percent over the FY 1983 expenditure level. The request was approximately \$13.6 million above the hold-harmless appropriation of \$224.5 million. (In FY 1983, the School Committee's authorized hold-harmless budget was \$210.8 million.)

As shown in Table 1, the \$13.6 million supplementary request was spread over a variety of programs. Subsequent review by the City Council and Mayor led to a supplementary approval of \$5.2 million, only 40 percent of the requested supplementary appropriation. Thus, the total "available" expenditure budget for FY 1984, as of December 31, 1983, approximated \$229.7 million.

Table 2 provides a breakdown of the FY 1984 budget by function. The pattern of spending by function has been relatively stable except for decreasing funds allocated to regular education and support services. In FY 1982, regular education was 37 percent of the total budget compared to 35 percent in 1984; support services had decreased during the same period from 19 percent to 13 percent. This suggests fairly stable functional policies within the School Department and the slight shifting of limited resources from support services to instruction.

As has been historically true, most of the School Department budget is spent in salaries and this percentage is increasing at the expense of nonsalaried items; salaries in FY 1982 were 62 percent of the school budget compared to 64 percent in FY 1984.

Incremental Request in 1984 Budget

As noted earlier, the supplemental budget requested for FY 1984 totaled in excess of \$13 million. While the programs and items in the request were considered important contributions to planned school programs, it is the view of School Department officials that many of the programs will not be implemented due to the lack of funding in the actual supplemental appropriation received. Spending reductions in

TABLE 1

INCREMENTAL SCHOOL BUDGET REQUESTS FOR FY 1984

Basic Skills - Middle and High Schools	\$1,740,000
Academic Programs - Middle and High Schools	2,650,000
Middle Schools Administration	290,000
Class Size Reduction, Grades 1-2:	
Kindergartens:	
Retention of Extended Day for K2	
Restoration of K1 as Extended Day Program	4,450,000
Bilingual and Special Education	1,070,000
Special Intervention and Prevention Efforts:	
School-Based Management	
Targeted High Schools	
Alternative Education Expansion, Middle and High Schools	960,000
Athletics	951,996
Boston Compact	975,000
Vocational Education and Security	<u>500,000</u>
	\$13,586,996

TABLE 2BUDGET BY FUNCTION
(dollars in thousands)

	<u>1982</u>	<u># of</u> <u>Pos.</u>	<u>1984</u>	<u># of</u> <u>Pos.</u>
<u>Instruction</u>				
Regular Education	77,438	2,637	79,133	2,423
Career (Occ. Ed.)	5,125	189	11,837	436
Special Education	44,814	1,290	47,855	1,418
Bilingual Education	8,107	514	10,126	535
Adult Education	312	2	204	42
Summer Session	100	--	140	81
<u>Support Services</u>	39,958	1,304	30,787	1,371
Pupil Services	7,209	292	9,890	819
Community Services	567	28	617	26
Unallocated & Benefits	<u>21,940</u>	<u>--</u>	<u>33,111</u>	<u>50</u>
Total General School Purposes	205,571	6,254	223,700	7,201
Alterations & Repairs	4,963	48	6,000	--
Total School Budget	210,534	6,302	229,700	7,201

selected programs will allow the School Department to keep projected deficits below the level which would have resulted had original program expenditure patterns been maintained.

Budget Update

By December 9, 1983, the School Department had expended approximately 33.8 percent of its FY 1984 budget, or \$77.7 million. The projected deficit for FY 1984, based on spending patterns through December 9, 1983, is expected to total \$6.3 million (see Table 3 and Display 1). This deficit was created by projected salary variances related to the recently signed Boston Teachers Union (BTU) contract discussed below. This projected budget deficit, however, does not reflect all of the additional costs expected to be incurred as a result of the BTU agreement. As of January 1, 1984, funding for the agreement had yet to be approved by the City Council.

Projected Impact of Collective Bargaining

In previous years, collective bargaining with the BTU has had a major influence upon the expenditure patterns and budgetary requirements of the School Department. In FY 1984, the projected impact of the most recent agreements is \$17 million. Of this amount, \$6.3 million is reflected in the FY 1984 budget update as the projected deficit as of December 1983. (See Table 3 and Display 1.) The resultant projected expenditure level will approximate \$246.7 million for FY 1984 compared to the \$238.1 originally proposed and the \$229.7 currently funded (\$224.5 hold-harmless and \$5.2 supplementary appropriations). These projections assume

TABLE 3
ESTIMATED COSTS OF COLLECTIVE BARGAINING
FY 1984, FY 1985, FY 1986

(figures in millions rounded to nearest hundred thousand)

I. FY 1984 Costs (Incremental)			
(A)	Current Salary Deficit (Restorations: Career Awards: BA + 15, MA + 15, MA + 45 Lanes: Group II; Differentials: Coaches; Hourly Rate Extracurricular Payments)	\$6.3M	
(B)	Step Increases	1.2	
(C)	Lane Advances Pending	0.4	
(D)	Sick-Leave Buy Back Costs	0.7	
(E)	Health & Welfare (@\$200/teacher & \$100/para)	0.9	
(F)	5% Across-the-Board Pay Raise	7.5	
	Total FY 1984 Costs:	<u>\$17.0M</u>	
II. FY 1985 Costs (Incremental)			
(A)	5% Across-the-Board Pay Raise on Total Impacted Salary	7.9M	
(B)	Step Increases	1.3	
(C)	Lane Advances Pending	0.4	
(D)	Incremental Increase in Health & Welfare Payments (@\$300/teacher \$200/para)	0.5	
(E)	Reduction in Class Sizes (45 Positions @/\$31K)	1.4	
(F)	Severance Incremental Increase	0.0 ¹	
	Total FY 1985 Costs:	<u>\$11.5M</u>	
III. FY 1986 Costs (Incremental)			
(A)	5% Across-the-Board Pay Raise on Total Impacted Salary		\$8.5M
(B)	Step Increases		1.3
(C)	Lane Advances Pending		0.4
(D)	Incremental Increase in Health & Welfare Payments (@\$400/teacher \$300/para)		0.5
(E)	Severance Incremental Increase		0.0 ¹
	Total FY 1986 Costs:		<u>\$10.7M</u>

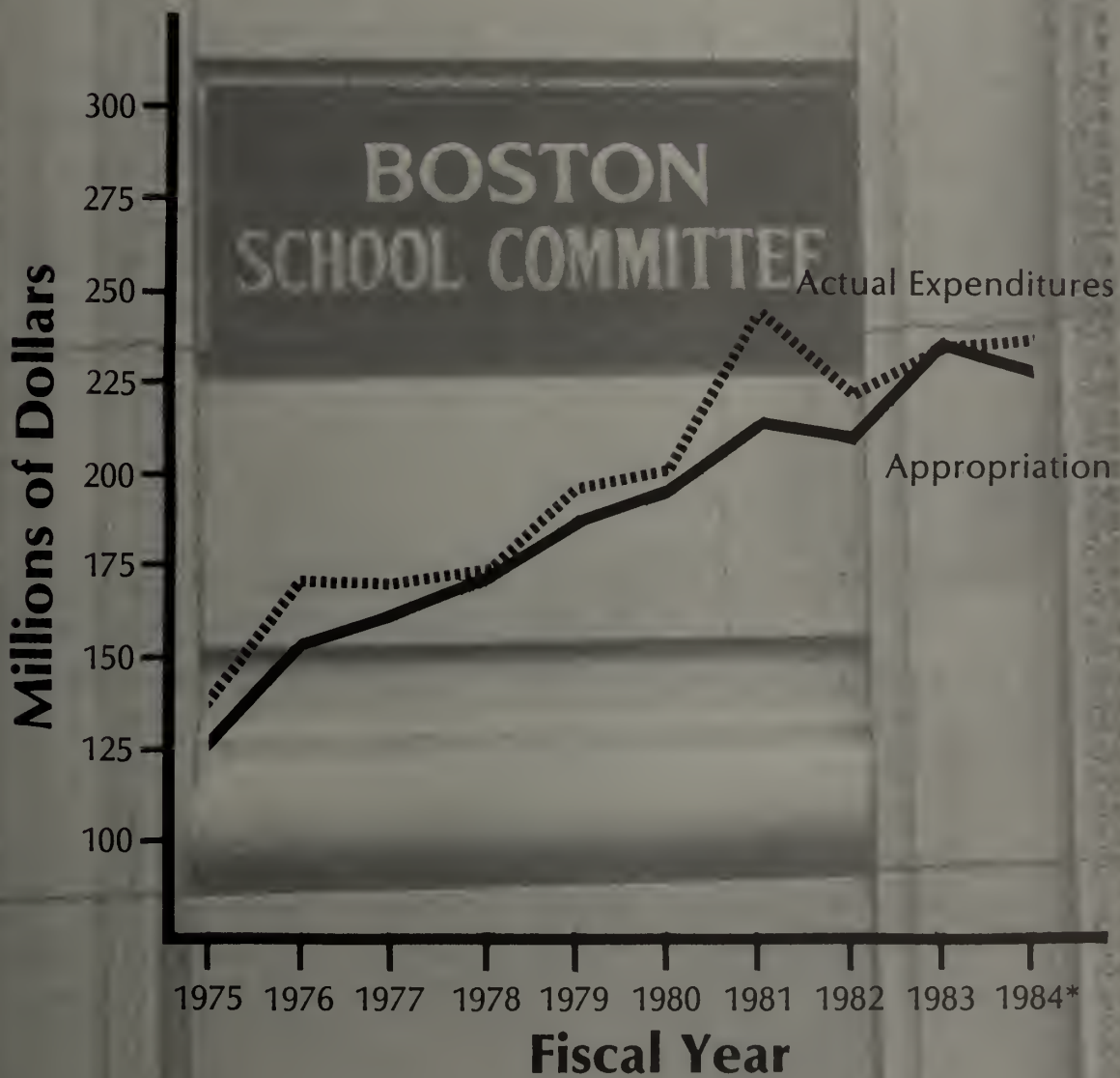
RESULTANT BUDGETARY LEVELS	\$246.7M FY 1984	\$258.2M FY 1985	\$268.9M FY 1986
% Increase in Budget	7.4%	4.6%	4.1%

¹ Incremental severance increase is \$30,000 annually in FY 1985 and FY 1986.

Source: School Department Memo December 19, 1983

Boston School Department

A Comparison of Appropriations And Actual Expenditures



*Actual expenditures are estimated.

that the School Committee will reach a 5 percent wage increase settlement with all other unions representing School Department employees.

The imperative funding required for FY 1984 therefore will be 7.4 percent greater than the appropriated \$229.7 million and 3.6 percent (\$8.6 million) above the original School Committee Budget Proposal for FY 1984 (see Table 3).

In FY 1985 and FY 1986, the incremental impact of the new tentative agreement will approximate \$11.5 million and \$10.7 million, respectively. As with previous budgetary patterns, the major portion of the incremental cost will be in across-the-board pay raises. Such salary increases account for 43.9 percent of the incremental costs in FY 1984, for example, and 69.1 percent and 79.3 percent, respectively, in FY 1985 and FY 1986.

Non-City Budget Sources of Funds

In addition to the funds appropriated by the city, the Boston School Department will receive in FY 1984 about \$32.5 million in direct grant funds from state and federal sources (see Table 4 on following page). These grant funds are not reflected in the Department's budget proposal.

Within the School Department itself, there are limited revenue sources, primarily lunch programs and tuitions for nonresidents. These amounts are minimal (less than one-half of one percent of budget annually) and have declined in recent years.

TABLE 4

EXTERNAL GRANT AWARDS: FY 1984

SOURCE OF FY 1984 AWARD

Adult Basic Education	\$ 270,000	
Boston Sister Cities (Polaroid)	1,000	
Chapter 2 - ECIA - Block Grant	1,359,804	^a
Chapter 74 - Apprenticeship Training (state)	253,160	
Chapter 636 (state)	5,335,380	
Ed. Handicapped - PL 94-142	2,235,750	
Chapter 1 - PL 89-313	527,250	
ESEA - (Ch. 1)	12,011,880	
ESEA - Title VII (SUCCESS)	368,037	
ESEA - Title VII (CHILD)	231,879	
Food Services	8,426,000	^b
Ford Foundation: SBHS	20,000	
Impact Aid	188,828	^c
Indian Education Act	63,472	
Neighborhood Development & Employment Act	51,596	^d
Refugee Children Assistance	<u>0</u>	^e
TOTAL	<u>\$31,344,036</u>	

^a Includes non-public schools allocation of \$326,362

^b Projected revenue: expenditures projected at \$9,623,110

^c FY 1983 entitlement received in FY 1984

^d Adult External Diploma Program

^e No projection available at this time

Impact on City Debt Service

On August 1, 1983, the gross principal debt of the City of Boston was \$455.7 million. Debt for School Department expenditures represented the largest portion at \$184.1 million, or 40.4 percent of the gross debt. As of August 1, 1983, the School Department had an additional \$20.8 million of authorized and unissued debt. The debt attributable to the School Department results from the fixed cost requirement for buildings and schools, and must be monitored carefully because of its magnitude and consequent potential impact on the interest burden borne by the City.

HISTORICAL BUDGETING EXPENSES OF THE BOSTON SCHOOL DEPARTMENT

Between December 31, 1972, and June 30, 1982, the budget of the School Department doubled from an appropriation of \$105.8 million to \$210.5 million. School Department budgets have shown a striking pattern of year-end deficits, with the deficit growing from less than one million to the record \$26.7 million achieved in 1981.

MAJOR FACTORS AND TRENDS AFFECTING THE BUDGET

Two of the major influences on the expenditures of the School Department are, of course, the size of the student population and teaching and staffing levels.

Student Enrollment

Enrollment in the Boston Public School system declined 27 percent during the period 1976-77 to December 1983, from 73,683 to the current 53,745. (See Display 2.) While enrollment levels are expected to stabilize at an approximate population of 52,000, significant efforts will be required to prevent further decline.

One result of declining enrollment is an increased cost per student as associated fixed building and staffing expenses do not decline proportionally. In fact, the yearly budget cost per pupil has risen steadily since 1977 reaching a high of \$4,120 per pupil in 1984 (see Table 5). The compound annual growth rate in the cost per student has been nearly 8.6 percent since 1978, although the growth slowed to less than 1 percent from 1983 to 1984.

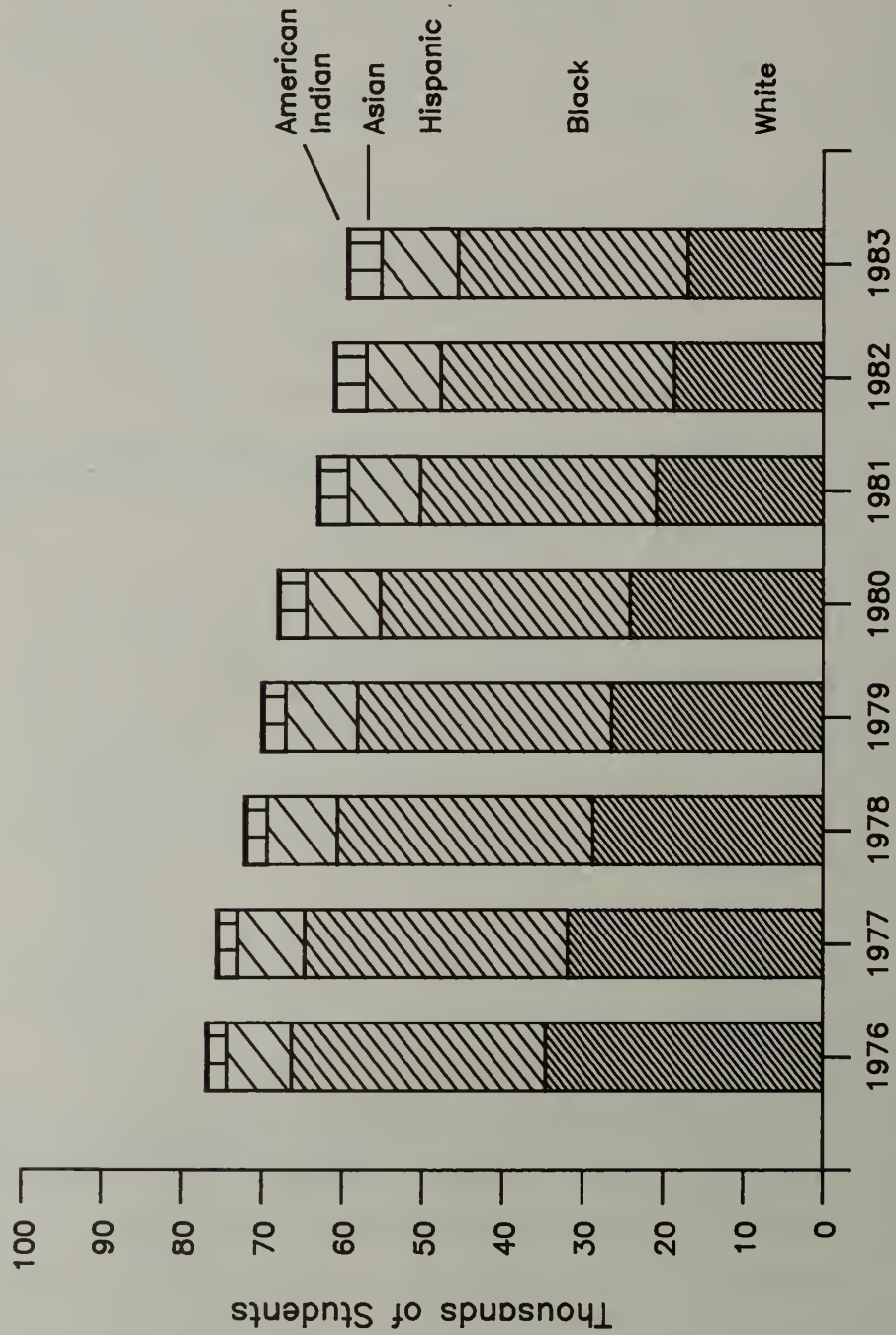
TABLE 5

BUDGETED DOLLARS/STUDENT

	<u>Budgeted</u>
1977	\$2,316
1978	2,423
1979	2,746
1980	2,990
1981	3,401
1982	3,575
1983	4,092
1984	4,120

While enrollment in the lower grades (kindergarten, elementary) and special schools has remained fairly stable during this period, middle and high school enrollment declined markedly (see Table 6). This is the result of a combination of factors including a general decline in the birthrate and children leaving the system after lower school.

Boston Public School Enrollment, 1976 - 1983



Display 2

* Enrollments shown, are as of October 1, of each year.

TABLE 6

BOSTON PUBLIC SCHOOL
STUDENT/SCHOOL RATIOS

<u>Students</u>	<u>1980</u>	<u>1984 Projected</u>
Kindergarten	7,392	4,450
Elementary	<u>21,526</u>	<u>20,090</u>
Subtotal (K + E)	28,918	24,540
Middle	14,651	12,115
High	19,164	17,115
Special	983	450
TOTAL	<u>63,716</u>	<u>54,220</u>

Based on 1980-1983 and projected 1984 enrollments, the number of students per school over the past five years has averaged 423. From a low of 380 students per school in 1981, the ratio has risen to a projected 430 students per school for FY 1984. The improvement in school capacity utilization is a direct result of the School Committee's decision to close 27 schools in 1981. Still, reduction of classroom capacity has not been pursued as rapidly as the rate of decline in the student population would warrant.

Table 7 provides a projection of student enrollment from December 1984 to December 1987. The number of high school students is expected to decline by 2,410 or 14.1 percent for this period. Populations enrolled in other grade levels should remain relatively stable.

TABLE 7

FIVE YEAR ENROLLMENT PROJECTIONS

	<u>12/84</u>	<u>12/85</u>	<u>12/86</u>	<u>12/87</u>
Kindergarten	4,450	4,600	4,740	4,860
Elementary	20,090	20,470	20,950	20,625
Middle	12,115	11,300	10,690	11,665
High	17,115	16,105	15,515	14,705
Other	450	450	450	450
TOTAL	<u>54,220</u>	<u>52,925</u>	<u>52,345</u>	<u>52,305</u>

A graphic example of the need to more carefully examine school capacity is shown in Table 8 which shows a selected sampling of the utilization of elementary and middle schools in the Boston Public School system for the 1982-83 school year. Utilization ranged from a low of 27 percent to a high of 53 percent. The weighted average was 46 percent.

TABLE 8
RATIO OF SCHOOL BUILDING
ENROLLMENTS TO CAPACITIES
(selected sample)

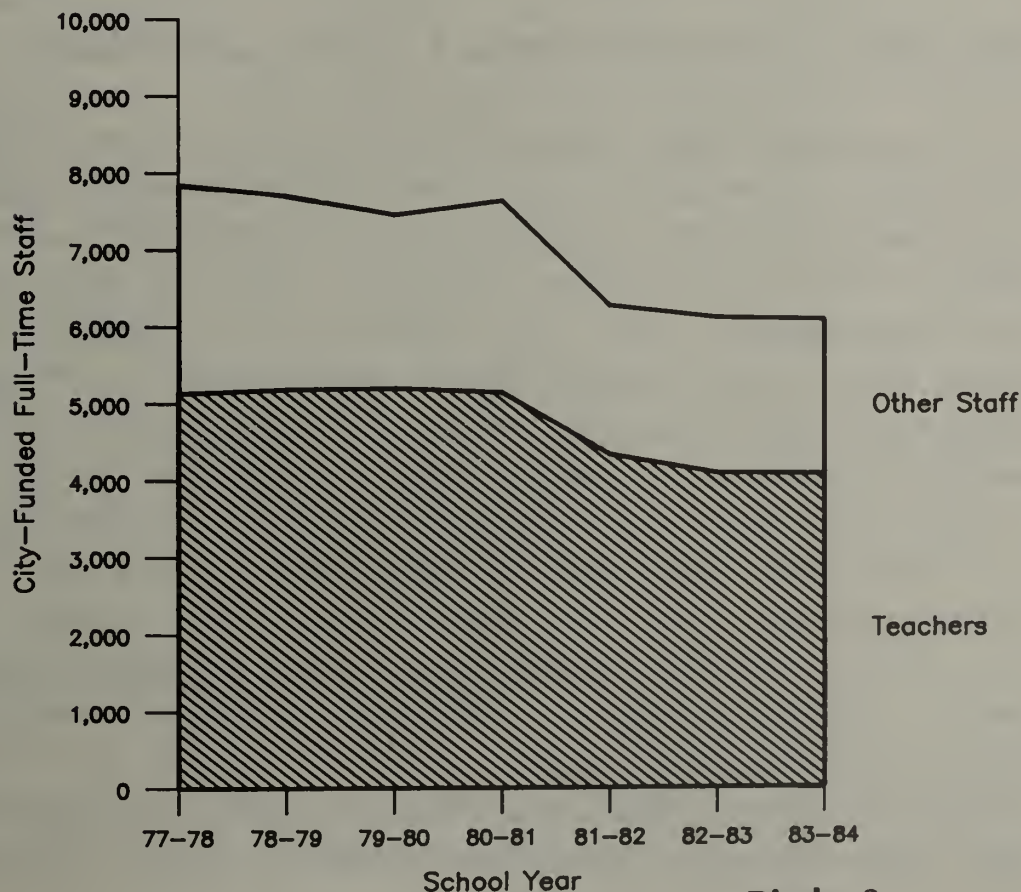
<u>School</u>	<u>1982-83 Enrollment</u>	<u>Capacity</u>	<u>Ratio</u>
Elementary:			
Beethoven	150	350	43%
Clapp	150	350	43%
Grew	168	350	48%
Higginson	119	310	38%
P.J. Kennedy	172	350	49%
Longfellow	208	450	46%
Mason	143	300	48%
Perkins	178	400	45%
Perry	93	350	27%
Winthrop	159	380	42%
Middle:			
Gavin	540	1,050	51%
Lewenberg	451	900	50%
Lewis	238	450	53%
Michelangelo	219	450	49%
Rogers	550	1,100	50%
Shaw	326	800	41%
TOTALS AND			
WEIGHTED AVERAGE	3,864	8,340	46%

These numbers in Tables 7 and 8 suggest potential savings by further consolidating schools.

Teacher and Staff Trend

The staffing patterns of the School system have a major impact on budget and resource allocation decisions. From FY 1978 to FY 1981, staff declined by 194, or 2.5 percent of total staff. Between FY 1981 and FY 1984 (projected), City-funded full-time staff and teachers will have declined by 23.8 percent, an absolute drop of 1817 individuals. As shown in Display 3, the most dramatic single year decrease occurred between FY 1981 and FY 1982 when full-time staff were reduced by 19.7 percent from 7,646 to 6,140.

Boston Public School Staffing 1977 - 1984



Display 3

Between 1975 and 1983, the number of teachers in the Boston Public School system declined from 5,443 to 4,085, a drop of 24.9 percent. For the same period, the student-teacher ratio declined from 15.6 to 14.5. This trend was a function of both declining enrollments and collective bargaining constraints. These ratios are calculated on a system-wide basis and do not reflect variation within grade levels and/or programs. Advanced work, vocational education, special education, student-teacher ratios may vary from less than ten students per teacher to as high as eighteen. Of course, the demand/need for special programs such as bilingual education increases or decreases as the demographic composition of the school population shifts, another factor with cost consequences that should be analyzed.

Boston Public School Staffing: A National Comparison

Measured against six other major cities, Boston's Public School system has the lowest student-teacher ratio of all systems studied. Boston also has the lowest student-school ratio of all cities; Boston's ratio is 26.2 percent less than Atlanta, the city with the next lowest student-school ratio. Both these ratios are presumably beneficial to students but they are also expensive and constitute too much of a luxury. Noteworthy is the fact that Atlanta has the next to lowest per pupil cost, \$2,556, while Boston has the highest per pupil cost, \$4,092. Boston's per pupil cost is 17.7 percent above the next highest, 28.2 percent above the average including Boston, and 34.6 percent above the average excluding Boston. Additional study of Boston and other major cities is clearly warranted as even in surrounding Massachusetts towns, the cost per pupil is considerably less than in Boston. Arlington, Duxbury, Quincy and Needham

spent \$2,873, \$2,297, \$2,354 and \$3,114 per pupil respectively in FY 1982-83.

Contingent Liabilities--The Bornstein Award

In addition to the trends in student enrollment and teacher staffing levels discussed above, one major court action could have a substantial, one-time impact on School Department finances. During the 1981 fiscal crisis, the Department laid off 710 tenured teachers. At the time of the layoffs, the BTU 1980-1983 collective bargaining agreement contained a job security clause, effective through the 1981-82 school year, which prohibited tenured teacher layoffs. The teachers challenged the City's action and obtained an arbitration award, widely referred to as the Bornstein award, ordering the School Committee to pay contractual damages of roughly \$17 million. The award represented the full back pay for the laid-off teachers, offset by outside earnings, but not offset by unemployment compensation paid to the teachers during the same period. The School Committee has appealed the overall decision in the courts and has requested the arbitrator to reconsider his decision not to offset the City's liability by the amount of unemployment compensation (approximately \$2 million). No payment has been made pending court determination of the Committee's appeal. The City's total liability in the case could range from \$15 million to \$17 million.

Projected Budgets through FY 1985-86

In 1982, the School Department prepared a three-year expenditure projection for FY 1984-86 (see Table 10). Since that time, the FY 1984 budget has been approved. The

TABLE 9

NATIONAL PERSPECTIVE 1982-83
[Educational Research Service]

<u>City</u>	<u>Student</u>	<u>Teachers</u>	<u>Student/ Teachers</u>	<u>Schools</u>	<u>Student/ Schools</u>	<u>(\$000) Budget</u>	<u>\$ Per Pupil</u>
Atlanta	68,300	3,550	19.2	111	615	174,575	\$2,556
Chicago	429,000	21,178	20.3	497	863	1,291,719	3,011
Houston	194,073	9,849	19.7	224	866	488,288	2,516
New York City	927,586	53,706	17.3	931	996	3,061,034	3,300
Philadelphia	194,628	9,135	21.3	271	718	659,789	3,390
San Francisco	61,300	2,749	22.3	94	652	213,018	3,475
Boston	57,252	3,610	15.9	126	454	234,300	4,092

actual FY 1984 appropriation has been included alongside the Table 10 projections to provide a comparison between actual and projected results. The projections for 1984, 1985, and 1986 do not reflect the significant incremental costs associated with the tentative Boston Teachers Union contract recently negotiated. When these incremental costs (discussed earlier) are added in, the projected budgets for FY 1985 and FY 1986 become \$256.8 million and \$273.3 million, respectively. In the School Department's budget update, however, as shown earlier in this chapter in Table 3, FY 1985 and FY 1986 budgets, including incremental contract costs, are expected to approximate \$258.2 million and \$268.9 million for the two years in question. Using the lower of the figures for FY 1985 and FY 1986, the projected budgets for those years will require \$24.5 million and \$39.2 million, respectively, above the FY 1984 appropriation. The required budget in FY 1985 will apparently be 11.5 percent greater than FY 1984, and the budget requirement for FY 1986 will be 17.1 percent greater than FY 1984. None of the figures in this paragraph reflect external grant funds discussed earlier.

Recommendations

As of January 1, 1984, the approved appropriations for the Boston Public Schools are still far below what will be needed to insure uninterrupted sessions for the remainder of the fiscal year. The most pressing issue is the need to fund or absorb the incremental costs resulting from the recently concluded BTU collective bargaining agreement. If approved by the City, the accord will necessitate funding the School Department by \$17 million above the current appropriation.

Although the principal objectives of this chapter were descriptive in nature, analysis of the operating budget leads to certain tentative recommendations, predicated on the need to achieve responsible and adequate spending policies by the Boston School Committee.

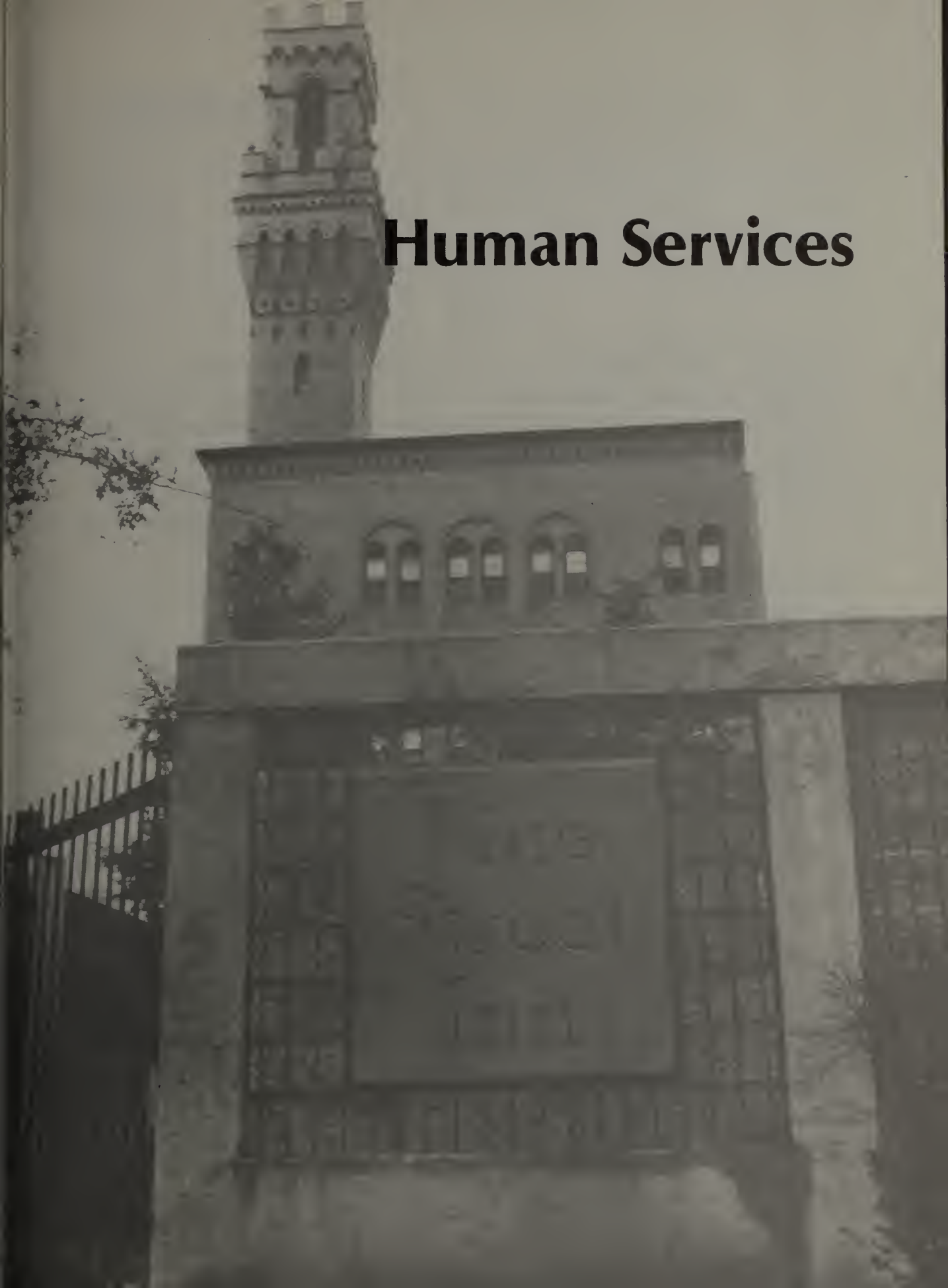
- o The Mayor and/or his administration should become involved in the early budget preparation process of the Boston School Committee given the political and financial impact of the Committee's decision.
- o School closings and district consolidations should be carefully matched with trends in the student population.
- o Aggressive efforts must be made to make the Boston Public School System more attractive to potential students. Specifically, new, innovative and specialized programs geared to higher achievers and "talented" students must be developed. The resources and support of the many colleges and universities in and around Boston provide fertile ground for such efforts.
- o The City Administration must carefully study and monitor the potentially costly (approximately \$15-\$20 million) impact of the Bornstein Award.

TABLE 10

FY 1984 - FY 1986 EXPENDITURE PROJECTIONS
 [Projections prepared in 1982]
 (\$ in 000's)

	Actual Budget FY 1984	FY 1984	FY 1985	Change FY 1984-1985 \$	%	FY 1986	Change FY 1985-1986 \$	%
Total Non-Salary Items	81,374	84,442	87,593	3,151	3.7	93,674	6,081	6.9
Salaries: GSP	147,074	158,012	167,751	9,739	6.2	178,092	10,340	6.2
Salaries: A&R	1,252	1,335	1,417	82		1,504	87	
TOTAL	\$229,700	\$243,789	\$256,761	\$12,972		\$273,270	\$16,508	

Human Services



I. INTRODUCTION

For this report, six human service agencies were reviewed. Current human service policy was found to be one of benign neglect. A policy vacuum resulting in a significant variation in management controls and service delivery was found among the agencies surveyed.

The agencies reviewed in this chapter are: Commission on Affairs of the Elderly, Handicapped Affairs Commission, Emergency Shelter Commission, Fair Housing Commission, Rent Equity Board, and Veterans Services Department. Following these reviews is a survey of Boston's growing Hispanic community's access to such services.

It was impossible to determine which Bostonians receive what City services. Agencies could not say exactly whom they were helping.

- o Four agencies reported not collecting client information by either race, sex, age, or neighborhood residence.
- o One agency collects client demographics but has never compiled the information.
- o One agency that collects client demographics does so in different formats for 11 different programs. The information is inconsistent between programs and subsequently has not been integrated.

Without accurate information identifying who the City directly serves, an analysis of service distribution and determination of the extent to which needs are being met is impossible. It is imperative that a client data collection system be developed that is both comprehensive and uniform enough to allow for comparison between departments.

Policy direction from the Mayor's Office is minimal. One agency head reported never having met with either the Mayor, Deputy Mayors or Budget Director. Individual agency interpretation and development of policy was the general practice. Four agencies employ legislative liaisons and conduct state and federal lobbying activity independent of the City's Inter-Governmental Relations Office.

Interdepartmental coordination of program services is also absent. Communication between departments is sporadic and highly informal. Despite often overlapping constituencies, joint planning and delivery of program services is nonexistent.

II. COMMISSION ON AFFAIRS OF THE ELDERLY

The Commission on Affairs of the Elderly was established by ordinance in 1970. Its scope and financial resources were increased considerably in 1974 upon being designated as an Area Agency on Aging, and thus the conduit for Federal funds allocated to Boston under Title III of the Older Americans Act. The Commission was to act as grant maker and grant monitor of Older Americans Act funds.

Elderly in Boston

95,262 persons over the age of sixty live in Boston, 16.9% of the total population. Compared to the state as a whole, Boston's elderly population includes more minorities and is disproportionately poorer. Since 1970, the City's elder population has decreased by 10%. However, the numbers of oldest Bostonians (85+ years), the most dependent on government services, have increased from 5.8% of Boston's elder population in 1970 to 8.0% in 1980.

Commission Funding

The Commission's FY 84 budget is \$5.3 million; City and federal funds account for 99%. These funds support agency administration, eleven programs operated directly by the Commission, and subcontracts for community programs in eight additional service categories.

Older Americans Act funds (Title III-B and III-C) constitute 52% of the Commission's budget. These funds are appropriated annually by Congress and distributed to states according to the number of persons 60 years and older. They pass directly to the Massachusetts Department of Elder Affairs (DEA), which in turn distributes them by formula to Area Agencies on Aging throughout the State.

In 1980, the formula was changed to redistribute more funds to rural and suburban areas and less to inner cities. This lowered Boston's proportion from 20% of the State's allocation in 1980 to 16% in 1984.

The DEA also awards \$95,000 in Council on Aging funds to the Commission. An additional \$16,497,151 in State funds is awarded to three Home Care Corporations in the City. These agencies are charged with serving the most frail older Bostonians.

In FY 84 the Commission received \$2,754,691 in Title III-B and III-C funds. These grants are allocated to three service categories: administration, social services and nutrition services. Eight percent (\$214,866) was retained by the Commission for administration.

The Commission also participates in two other federal programs, both related to elder employment. The Senior Aide program (which receives \$379,899) pays low income elders working part-time in private and public sector settings. The Retired Corps of Senior Volunteers (RCSV) receives a grant of \$65,000, supplemented by \$57,145 of City funds. It provides stipends for meals and transportation to 800 senior volunteers.

City appropriations this year of \$2,058,631 represent 38% of the Commission's total budget. Of this, 74.5% (\$1.5 million) pays for staff salaries.

The Older Americans Act requires that the Commission fund a city-wide nutrition program for the elderly and award social service grants in categories of documented local need. The nutrition program funds are divided among three vendors serving different parts of the city. These contracts are put out for public bid on an annual basis. This past year only the three existing vendors responded to the bid, and each was awarded a grant.

Each contractor provides two types of nutrition service. The first is a daily group meal for elders held at one of 60 hot lunch sites throughout the city. Last year a total of 4,690 elders participated in the program and a total of 432,378 meals were served.

"Meals on Wheels," the home-delivered meals program, is targeted to the most frail homebound elders. A typical client is female, over the age of 70, living alone on a fixed income. Her Meals on Wheels delivery person comes at noon and may be her only daily social contact. This year 2,130 such clients will have 261,036 hot meals delivered to them. To offset costs a donation is requested

(75¢-\$1.00) from the elders. The average per meal donation is about 55¢; these funds are calculated as part of each nutrition program budget.

The distribution of resources for community social services is more complex. There are over 400 organizations in the city who serve, or have the capacity to serve, elders. The competition for Title III-B service funds is intense. This year the Commission retained \$163,000 of social service funds to deliver programs directly to elder Bostonians. The balance (\$699,834) was awarded to community organizations.

Allocation of social service grants is reportedly determined through community input gathered through task forces, staff-initiated needs assessments, and an advisory council appointed by the Mayor. This information is summarized and forms the basis of grant specifications (requests for proposals) that are put out to public bid. At this point public involvement in the process ends. Proposals are evaluated within the Commission, and recommendations are developed. The Mayor makes actual funding awards to selected contractors. In accordance with Department of Elder Affairs regulations, a local administrative review process exists and further appeal can be made to the Department of Elder Affairs.

This year 21 grant awards, totalling \$699,834, were made to 18 agencies. They ranged from a low of \$7,523 to a high of \$186,734. Thirty-eight percent were in the range of \$25,000-35,000. Four of the grants were awarded for city-wide services; these totalled \$253,387. Three of the grants were awarded for minority (Black, Hispanic and Asian) elderly services; these totalled \$83,068.

The 11 direct services provided by the Commission fall into 3 categories: community services, outreach services, and information and referral services. Major programs include the Senior Shuttle, health screening, employment/volunteer programs, and information/referral and advocacy.

Transportation has been identified as a major need of Boston's elderly. Forty-eight percent of elders surveyed in a 1983 needs assessment stated that they would use special transportation services either frequently or sometimes. Ninety-three percent of those surveyed were aware of the Senior Shuttle and 23% reported that they used it.

The Senior Shuttle is completely funded by the City at a cost of \$751,104. There are 25 vehicles in the fleet, which are dispatched directly from either the Commission or from neighborhood sites. Each neighborhood is covered by at least one shuttle van, with Allston/Brighton (2), Roslindale (2), Dorchester (3), and West Roxbury (2) having more.

The primary goal of this program is to provide medical and food shopping transportation within the city. It is a door-to-door service which must be scheduled in advance. Elders are informed of the service through the Mayor's Hotline and publicity efforts.

Staff regularly gather statistics on monthly service utilization, including numbers of clients, and new clients by neighborhood. The form in which data is compiled differs among programs. The current data collection system produces data that is not readily comparable between neighborhoods and racial populations.

A Neighborhood View of Boston's Elderly Population and the Senior Shuttle Service

	Number of Elders	Percent of Boston's Elderly Population	Monthly Average Senior Shuttle Ridership*	Percent of Elders in Neighborhood Riding the Shuttle
Allston/Brighton	10,682	11.2	374	3.5
Back Bay/Beacon Hill	3,556	3.7	149	4.2
Downtown/Central/West End/ Chinatown/South Cove/ Bay Village	2,226	2.3	85	3.8
Charlestown	2,281	2.4	89	3.9
Dorchester	16,831	17.7	445	2.6
East Boston	7,284	7.7	140	1.9
Fenway/Kenmore/Mission Hill	3,894	4.1	117	3.0
Hyde Park	5,918	6.2	126	2.1
Jamaica Plain	7,638	8.0	174	2.3
Mattapan	1,993	2.1	71	3.6
North End	2,259	2.4	167	7.4
Roslindale	6,434	6.8	339	5.3
Roxbury	4,305	4.5	150	3.5
South Boston	6,867	7.2	126	1.8
South End	3,705	3.9	116	3.1
West Roxbury	<u>8,946</u>	<u>9.4</u>	<u>280</u>	<u>3.1</u>
Totals	94,819	100.0	2,958	3.1

**Based upon operating statistics for the months of July through October, 1983.*

A review of four months (July 1983-Oct. 1983) of client utilization showed an average of 2,956 elders using the service per month. Total clients per neighborhood were highest in Allston/Brighton (an average of 748 per month) and lowest in Mattapan (71 per month).

The Senior Shuttle has been plagued by van breakdowns. Vehicles are periodically leased on a per diem basis to maintain service. Twelve new vans have been purchased. Within the next two years, the remaining fleet will need to be replaced.

Management controls also need to be checked. Shuttles are not parked in a central location each night. At the discretion of the Commissioner, some shuttles are parked at drivers' homes. This prevents the Commission from accounting for vehicles during unscheduled hours. This "trust" system needs to be re-examined.

Information and referral, government benefits screening and the Elder Hotline cost \$254,119 in FY 84. The hotline cost \$44,672, the Information/Referral Unit \$54,021, and the government benefits screening \$155,425.

Last year, the number of hotline calls totalled 13,520; 29% of these were inquiries about the Elder Discount program. Last year the government benefits screening unit, which targets frail homebound elders, served 8,682 clients, 36% of whom were non-English speaking. The two most commonly presented problems were Medicaid and SSI.

The City also spends \$48,170 on the "Senior Stars" program, which sponsors volunteer elderly performers who entertain at sites throughout the City and have generated considerable favorable publicity.

Personnel

The Commission employs 120 people, excluding "senior aides". All but one of the Commission employees are mayoral appointments; one holds civil service status in the City Budget Department and is on loan to the Commission. Total personnel funding is \$1,984,478, 37% of the total operating budget.

Salary ranges were determined through the Mayor's Office. The Commissioner reported that she awarded pay increases based on merit. She measures this through annual performance reviews.

Commission staff is divided among four functional units. The senior management level of the Commission includes one Commissioner, one Assistant Commissioner, one Legislative Liaison, and five Deputy Commissioners. These salaries range from \$26,000 to \$40,000 per year.

The senior level of the Commission should be reviewed to clearly define job roles. The role of Legislative Liaison should be reviewed to determine if that person would be better placed within inter-governmental relations.

III. COMMISSION ON HANDICAPPED AFFAIRS

The Commission on Handicapped Affairs was originally established in 1971 as the Commission on the Physically Handicapped. From 1971 through 1979 the Commission operated without staff. During this period the eight Commission members, who serve one-year terms, met with Vice Mayor Sullivan monthly to discuss issues affecting the physically handicapped. In 1979, responding to complaints

of limited handicapped access to Boston's downtown developments, the Office of Handicapped Affairs was first funded. At this time the Commission's name was changed to include both physically and mentally handicapped individuals. By law, one Member must be a physician specializing in the physically handicapped and one must be a certified special education teacher. All Commissioners' terms expired January 2, 1984; seven former Commissioners have submitted formal requests for reappointment.

The Handicapped Population

The federal definition of a handicapped person is anyone who has a physical or mental impairment that substantially limits one or more major life activities. How many Americans this definition covers is unknown. A recent study by the Arkansas Rehabilitation and Research Institutes estimated that 11% of the population between the ages of 16 and 64 years are handicapped. Estimates rise to 25% if all age groups are included. Applying these percentages to the 1980 Census population figure for Boston, 562,994, would give 61,929 working age and 140,740 Bostonians of all ages with some type of a handicap. For Commission activity a functional definition must be considerably narrower.

Agency Services

The Commission completes intake forms on all clients requesting service. This form distinguishes clients by type of disability, race, sex, and neighborhood residence. Although this data has never been analyzed, the Commission Director estimates that approximately 60% of all handicapped clients are elderly. Despite this percentage, Handicapped

Affairs and the Elder Commission have never discussed or planned services jointly.

Commission services include:

- o information and referral services
- o individual client advocacy
- o training seminars on handicapped access
- o interdepartmental coordination for handicapped issues

The Commission reports 136 active "clients" who have called for service and completed an intake form. Another 80 to 100 individuals receive snow shoveling from volunteers coordinated by Commission staff.

The Commission lists the following as highlights of 1983 program activities:

- o Faneuil Hall Access: The Commission successfully advocated for installation of handicapped accessible bathrooms;
- o Police Department: Supported installation of Telecommunications Devices for the Deaf (TDD) within 911 units and conducted training session for community liaison officers;
- o Purchased 10 additional TDDs for distribution within City government;
- o BRA: testified on behalf of paralyzed veterans regarding access to new downtown developments;
- o HP/V Ordinance: advocated for passage of M.G.L. Chapter 644 and is negotiating with City Administration to set aside revenue from HP parking violations for physical access renovations;

- o Deaf Interpreters: provided interpreter services to any deaf client request for access to municipal proceedings;
- o Snow Removal: coordinated volunteers for up to 100 handicapped individuals in need of service;
- o Represented the City at the National MS Society, Boston Marathon, Deaf Media Coalition, BPL, Gay/Lesbian Outreach, Summerfest Committee, Boy Scouts, etc.

Although Commission staff attempt to address a broad range of handicapped needs, the Commission's effectiveness has suffered from attention scattered among far too many activities, lack of policy direction, and the failure to design realistic work plans. The Commission is both programmatically and administratively isolated within the City's bureaucracy. The Commissioner reports that no formal communication procedures exist with either Administrative Services or the Policy Management Offices. An immediate reexamination of the Commission's role within City government is required. Present staff capacity for the existing work plan is grossly inadequate. It is unfair to both employees and clients to raise expectations for service that cannot be delivered.

Commission Funding

The following is a summary of total appropriation for the Commission from FY 80 through FY 84.

<u>FY 80</u>	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>FY 84</u>
\$50,000	\$50,000	\$32,000 (-36%)	\$65,000 (+103%)	\$82,416 (+27%)

The FY 84 appropriation includes staff funding for a Commissioner (in effect, the Executive Director), Assistant Commissioner, Social Worker, and Student Intern, whose salaries

account for 82% of the total appropriation. During FY 83 the Commission utilized contracted service funds to provide interpreters for deaf individuals requesting access to City services. The recently enacted Deaf Rights Law requires all levels of government to provide interpreters to deaf individuals using public services or proceedings. The publicity this legislation received is expected to increase demands for interpreters.

FY 84 Issues

Section 504--Section 504 of the Rehabilitation Amendment (1974) expanded the scope of previous federal law to include all disabled citizens. This section had previously applied only to "potentially employable" disabled. Section 504 reads:

No otherwise qualified handicapped individual in the United States, as defined in Section 7 (6), shall, solely by reason of his handicap, be denied the benefits of, or be subjected to discrimination under, any program or activity receiving federal financial assistance.

Section 504 applies to every public and private body which receives federal support. This section primarily applies to hiring practices and physical access to municipal programs and facilities. The penalties for noncompliance with Section 504 are suspension or termination of, or refusal to grant or to continue, federal assistance.

In 1982 the Commissioner of Handicapped Affairs was designated the City's 504 Compliance Officer. The Commissioner reports that the City has never implemented 504 regulations. Only one City department, Health and Hospitals, has a 504 compliance office. The current practice is for

individual departments to negotiate 504 complaints. In the past 12 months, five citizens filed complaints; one complaint remains unresolved.

Compliance with 504 regulation involves both simple actions such as announcements and signs and more long-term projects including employee training, development of complaint investigation procedures, and physical rehabilitation. What it would cost the City to meet 504 provisions is unknown. The fiscal and programmatic requirements of 504 compliance have never been evaluated.

IV. BOSTON'S EMERGENCY SHELTER COMMISSION

On January 9, 1983, a woman was found frozen to death under a bench in Boston Common. Media attention to this case and the plight of other homeless prompted the Boston City Council to pass an ordinance on January 19, 1983, establishing Boston's Emergency Shelter Commission. The City Council also ordered the Department of Health and Hospitals to begin providing emergency shelter. That evening accommodations for 100 were established in the Boston City Hospital auditorium. Two weeks later this program was transferred to the Tobin Building at Long Island Hospital.

There are five members of the Emergency Shelter Commission. The following display shows present Board composition and terms of office.

EMERGENCY SHELTER COMMISSION MEMBERSHIP
AND TERMS OF OFFICE

Director of Public Facilities Donald Manson	ex officio
Commissioner of Health & Hospitals Lewis Pollack	ex officio
Appointment Richard Ring Executive Director, Pine Street Inn	term expires 1/31/84
Appointment Barbara Whelan Executive Director, Bridge Over Troubled Waters	term expires 1/31/85
Appointment Honorable J. John Fox	term expires 1/31/86

The Commission has the authority to hire a Director and other staff as necessary. The duties of the Commission are:

- o Compile and publish statistics on the number of homeless in Boston,
- o Coordinate public and private organizational efforts to provide facilities for homeless,
- o Work with City departments, agencies and commissions for the use of vacant or tax foreclosed buildings as temporary shelters for the homeless,
- o Report quarterly to Mayor and City Council regarding the homeless and the need for emergency shelters due to weather or other emergencies.

During FY 83 the Emergency Shelter Commission received a special appropriation of \$75,000. In May 1983 the Commission hired a Director, and in June added a research assistant, a secretary and a student intern.

The Commission views itself as a coordinator of city, state, federal and private efforts to address the needs of the homeless in Boston, as an advocate within the bureaucracy for homeless individuals, and as a monitor of the effectiveness of homeless shelters. These functions are carried out through bi-monthly meetings of the Commissioners, weekly meetings of shelter directors, and monthly meetings of the Governor's Advisory Committee on the Homeless.

In the seven months since the Director was hired, the Commission cites the following accomplishments:

- o Hired staff and set-up Commission office,
- o Functioned as a liaison between the Department of Health and Hospitals and state officials for the continued operation of the Long Island Shelter,
- o Recommended that the state, NDEA and PFD secure funding for the Arch Street Church Day Center and the Transitional Housing Horizon Program,
- o Conducted one-night homeless count and published pilot study (Nov. 1983),
- o Provided information and referral services to 56 walk-ins and 56 phone appeals, which reflect 42 males, 30 females and 49 families (with 99 children).

In addition, the Commission currently is coordinating proposal development for permanent single room housing with a group of nonprofit organizations.

Boston's Homeless

The homeless population no longer reflects the stereotypical elderly alcoholic male. It is diverse and

growing, with an increasing number of the mentally ill (predominantly between the ages of 20 and 50), as well as women (estimated to be 20% of the total population) and children.

Boston attracts homeless from across the state and throughout New England. Although the exact number of homeless in Boston is unknown, unofficial estimates range from 3,000 to 8,000. A Commission survey, known as the "October Project" and based on a one-night (October 27, 1983) count in shelters and on the street, found 2,767 homeless Bostonians. Additionally, the report identified 981 families who were doubled or tripled up. The table below summarizes the findings.

One-Night Count -- October 27, 1983

<u>Homeless Males</u>		<u>Homeless Females</u>	
Street	903	Street	287
Shelter	597	Shelter	194
Detox	500	Detox	18
Mental Health	86	Mental Health	48
Children	<u>7</u>	Children	<u>7</u>
TOTAL	<u>2,093</u>	TOTAL	<u>554</u>

The Commission readily admits that these findings are not comprehensive. Two neighborhoods, West Roxbury and Charlestown, were not included in the street count. Some battered women's programs did not submit data. Finally, four major social service agencies with knowledge of doubled or tripled up families refused to participate for fear of reprisals from City and State programs affecting their clients.

Despite the limitations of the report, it is significant that on October 27, 1983, a windy night with temperature lows of 39° F., 1,190 men, women and children were found in Boston's streets without any form of shelter.

The Massachusetts Association for Mental Health and the United Community Planning Corporation (MAMH-UCPC) also conducted a one-night (February 25, 1983) count which found 970 individuals in emergency shelters, of whom 81% were male and 19% female. Ninety percent of the guests were under 65 years old; 54% were between the ages of 20 and 40.

The MAMH-UCPC also conducted an "Identification of Needs" assessment of persons residing at the State-operated Lemuel Shattuck Shelter during the week of April 25, 1983. Major findings include:

- o N=78 (Male 83%, Female 17%);
- o 77% of all clients were white;
- o 41% of clients had a major mental disorder;
- o 37% reported no income and only 23% reported receiving any type of public assistance;
- o 72% had no form of medical insurance; and
- o 73% had no contact with social service agencies.

The MAMH-UCPC profile of Shattuck Shelter clients depicted a grim picture of a population greatly in need of psychological and medical services in addition to their primary need of shelter. There is also general consensus that the homeless are a growing population. Pine Street Inn alone experienced an increase of 677 new clients in 1982. During the winter of 1983 up to 250 individuals slept in the lobby of the shelter after its 300 beds were full.

Commission Funding

The Emergency Shelter Commission is entirely funded by City revenues. In FY 1983 the Commission received a special appropriation of \$75,000. Due to the late start-up, only \$36,000 was expended during FY 1983. In FY 1984 the Commission received another special appropriation of \$75,000.

Emergency Shelter Commission Budget

	<u>FY 84</u>	<u>Expend 12/13/83</u>
<u>Permanent Emp.</u>	\$64,461 (83%)	\$24,568
<u>Student Intern</u>	--	2,408
<u>Supplies-Materials</u>		
Office	--	500
Miscellaneous	8,039	30
Telephone	3,000	1,191
Postage	1,000	440
Printing	--	928
Travel	500	368
Subscriptions	--	25
TOTAL	<u>\$75,000</u>	<u>\$30,458</u> (40%)

For both FY 1983 and FY 1984 the Commission's budget was appropriated in one line item. Determination of expenditures was done by the Commission staff internally with little guidance from the Budget Department. Budget reports are not submitted to the Department. The absence of formal management linkages with the Administrative Services Department is evident in all areas of Commission operation. The Commission Director reported never receiving instructions regarding City management procedures.

The Commission's staff was hired by the Board of Commissioners as specified by the enabling ordinance. However, termination of staff is not outlined by the ordinance and thus staff status is similar to provisional employees. The management of staff is described as a "team approach."

The small number of employees combined with good intra-office morale has allowed this approach to function effectively for the past seven months.

Officially, the Commission reports to the Mayor's Coordinator of Housing policy. The degree of direction from this office appears to be minimal. An informal network calling upon the voluntary assistance of the Director of Public Facilities and the Commissioner of Health and Hospitals, both Emergency Shelter Commissioners, has enabled the Commission's staff to learn the ropes of City Hall. This assistance has helped the Commission avoid the dilemmas of being isolated from and uninformed about City Hall. This network has also introduced Commission staff to other department heads resulting in a level of inter-departmental coordination not found in the other agencies surveyed.

FY 1984 Issues

A number of programmatic and funding topics will require Mayoral decisions and/or policy direction in the near future.

Commission Membership--The term of one Commissioner, Richard Ring, Executive Director of Pine Street Inn, will expire January 31, 1984. Commissioner Ring currently satisfies the requirement that at least one Commissioner work directly for a homeless shelter.

Long Island Shelter--On February 2, 1983, the BCH opened the Tobin Building at Long Island Hospital to accommodate those persons still in the BCH auditorium and reduce the health hazards of cross-infection within a hospital setting. Until 1979 the Tobin Building was used as an

alcoholic treatment facility. The program was completely phased out by 1980. The Tobin Building has a present capacity of 100 beds.

Each Long Island Shelter guest receives a medical/social interview. Follow-up medical treatment is coordinated with staff at Boston City Hospital. Shelter guests are accepted on a first-come, first-served basis. Each day at 4:00 p.m. and 6:00 p.m. MBTA buses leave BCH, transporting 50 homeless persons per trip. The shelter director reports that guests are lining up 2 to 3 hours before the first bus leaves. The Tobin shelter provides nursing staff, showers and an evening meal. After breakfast guests are transported back to BCH. A small advocacy program allows 30-40 clients to stay at the Tobin facility to receive social and housing support counseling.

During FY 1984 funding for the Long Island Shelter has come from three sources:

FY 1984 Funding - Long Island Shelter

<u>City</u>		
	Supplemental appropriation (August 83)	\$330,000
<u>Federal</u>		
	Federal Emergency Management Agency (FEMA) appropriated via the State (must be encumbered by 12/31/83)	300,000
<u>CDBG</u>		
	Via NDEA	89,500
<u>State</u>		
	MBTA (2 buses daily)	<u>in-kind state donation</u>
	TOTAL*	<u>\$719,500</u>

*FY 1984 costs - \$719,500

City appropriations are made to the Health and Hospitals budget, which in turn contracts with the Trustees of Health and Hospitals for the operation of the Long Island Shelter. The Trustees act as a direct financial agent for all other shelter revenue.

FEMA funds became available during the spring of 1983. The State received \$1.6 million of a national appropriation of \$50 million. Boston was subsequently granted \$300,000 for the Long Island Shelter. Federal guidelines require FEMA funds to be encumbered by December 31, 1983. In order to meet this requirement and still be able to continue program operation, program costs for FEMA reimbursement are categorized as a \$50,000 per month lease of the Tobin Building between Health and Hospitals and BCH. By March 1984, the federal funding agency requires a financial audit. The federal intent of these funds was strictly targeted to food and shelter costs. It is unclear whether current encumbrance practices will withstand federal review. This contract should immediately be reviewed with State officials who have agreed to this arrangement.

NDEA has granted \$89,500 of CDBG funds to provide funding for professional staff at the shelter. Health and Hospitals was required to write a formal proposal for these funds. This proposal process differs from the experience of other City agencies that maintain "Memoranda of Agreement" with NDEA for grants.

Present funds will be sufficient to continue the Long Island facility through FY 1984. However, the Emergency Shelter Commission has actively proposed the establishment of an additional 100 beds for the winter of 1984. The Commission anticipates that the City Council will shortly be submitting a supplemental appropriation request of \$460,000

for such expansion. The Public Facilities Department has also set aside \$35,000 of CDBG funds to provide structural rehabilitation required for this expansion. Aside from availability of funds, Health and Hospitals has expressed strong reservations concerning the program implications of sheltering 200 homeless. BCH claims existing guests present needs that the shelter is only beginning to address. Prior to any decision regarding the expansion proposal, a serious analysis of program quality and long-term funding requirements must be conducted.

FY 1985 funding is uncertain. To continue operation of the present shelter capacity in FY 1985 will cost \$778,000. State officials indicate that FEMA funds were one-time grants, not to be anticipated in 1984. NDEA has also told the Shelter to anticipate a 40% reduction of CDBG funding. It is not known if the State will continue to pay for the MBTA buses which are provided without the benefit of a written agreement. Without additional revenue sources, the City would need to supplement the Shelter's operation with an additional \$335,800 for a total appropriation of \$665,800. This projection does not include the expansion of 100 beds, which would increase the city appropriation in FY 1985 to \$1,324,000, a 201% increase over FY 1984.

The Emergency Shelter Commission has taken an active role in advocating and making recommendations for the Long Island Shelter. While relations between the Commission and BCH have been productive, BCH has strong feelings regarding health, security and fire safety issues that will accompany any shelter expansion.

The Robert Wood Johnson Foundation, in cooperation with the U.S. Conference of Mayors, notified the White Administration on October 20, 1983, of their sponsorship of

the "Health Care for the Homeless Program." This project offers to make available as many as 14 four-year grants of up to \$1.4 million each for development and implementation of projects to deliver health care services to the homeless through a competitive grant application process open to the 50 largest U.S. cities. Conditions of application require grantees to represent city-wide coalitions of the health care community and providers of homeless services. Coalitions can be combinations of city, state and private providers. Of each \$1.4 million award, only \$200,000 can be used for planning and oversight; the remainder must be used for direct health care services. The City of Boston is not required, but is encouraged, to take the lead in the development of grant applications. Each application does require a letter of endorsement from the Mayor.

In October 1983, the Mayor's Office assigned responsibility for this grant to the Emergency Shelter Commission. There is an immediate planning and application process that needs to be addressed. The formal grant timetable is as follows:

- o March 1, 1984: Deadline for receipt of letters of interest,
- o July 1, 1984: Deadline for receipt of applications,
- o October 15, 1984: Completion of review of applications and site visits to selected applicants,
- o December 31, 1984: Grant recipients announced.

At a policy level, a decision is required as to whether the Emergency Shelter Commission should continue to be designated the lead agency. Further, the role Health and Hospitals should play (considering that the grant is for

health services) must be clarified. An early policy decision on this matter will allow for more effective planning and higher quality proposals.

V. BOSTON FAIR HOUSING COMMISSION

The Boston Fair Housing Commission (BFHC) was created by ordinance in March 1982. The Commission became operational in March, subsuming the responsibilities of the Mayor's Office of Fair Housing (MOFH). The goal of the Commission is to ensure equal access to housing for all, regardless of race, color, creed, marital status, military status, handicap, children, national origin, sex, age, ancestry, sexual preference or source of income. Three of these categories are not covered by other fair housing legislation: handicap, sexual preference and source of income.

The Commission's operating budget totals \$712,000, 77% of which is federal funds (CDBG). These funds are awarded to the Commission by the Neighborhood Development and Employment Agency (NDEA), which is also charged with monitoring them. The Commission's budget is primarily used for the salaries of staff members and the five Fair Housing Commissioners.

The budget negotiation and monitoring role of NDEA is minimal; it does not require a formal funding proposal from the Commission. Instead, the Commission is informed of its maximum budget level and directed to submit line items not exceeding that amount. NDEA requires formal proposals from other agencies within City government.

For the past two years, NDEA has approved generous levels of funding within certain line items. Although the Commission is located in City Hall, and inherited furniture from the MOFH, last year NDEA approved \$25,000 for new furniture. Approved furniture costs were as follows: Executive Director's Office - \$6,000; Hearing Conference Room - 9,000; Reception Area - \$2,000; three staff members' offices - \$8,000. In the area of training, NDEA allowed \$8,400 for a 16-week Staff and Board training seminar. Preparation of the series cost \$2,000.

Staff salary levels were determined by the Executive Director. Fifteen salaries are paid through CDBG; the average is \$21,600. City revenues are used to pay three salaries which average \$32,400. The Executive Director receives \$52,000 per year.

The City pays a per diem rate of \$300 to the Fair Housing Commission Chairman, and \$200 to four Fair Housing Commissioners. Commissioners' salaries cannot exceed an annual level of \$15,000 (Chairman) or \$10,000 (Commissioners).

The Fair Housing Commission provides three direct services and one indirect service. The former are investigation, conciliation/mediation and information/referral. The latter is public education. From January 1983 to October 1983 the Commission received 1,574 calls, conciliated/mediated 8 cases and analyzed 132 discrimination complaints. Most attention was devoted to racial issues related to Fair Housing.

Recently, a significant level of staff time was devoted to lobbying activity -- specifically, legislative lobbying related to passage of the Fair Housing Home Rule

Petition. This activity was not coordinated with the City's Office of Inter-Governmental Relations.

VI. RENT EQUITY BOARD

In 1969, the City Council established a Rent Control Board in Boston and charged it with regulating rents and evictions in approximately 70,000 rental units covered under the ordinance. Since then, a number of changes related to its scope and mandate have occurred, the most dramatic being passage of an ordinance in 1983 re-naming the Board and changing its mandate and service population.

Renamed the Rent Equity Board, it is charged with regulating rents and evictions in approximately 30,000 rent controlled units (40,000 units were de-controlled under the new ordinance). It is also required to establish a rent grievance process for protected classes of tenants (low/moderate income, handicapped and elderly), and maintain data on rental housing stock in the city. The changes decreased the total service population but increased the complexity of administration.

Agency Finances

The Rent Equity Board operates with a budget of \$527,485, all from City revenues. The budget rose 20% from the previous year, although the administration had requested a 42% increase to meet its new mandate.

The Rent Equity Board budget, which is included in the FY 84 Activity Budget, and the budget information received from the Rent Equity Board Administration did not

reconcile on three counts: structure, board members' salaries and number of staff positions.

The FY 84 Activity Budget lists two divisions; the Board's organizational structure reflects five sections. There are six board members listed in the Activity Budget at a total salary level of \$62,640. The salary schedule submitted by the Board's Administrator during the transition lists four paid Board members with salaries totalling \$9,396. Finally, 20 staff positions are listed in the Activity Budget (accounting for over 80% of total funding) while 25 are listed on the organizational chart. The Rent Board Administration stated that the Activity Budget format had little relevance to their organization.

In the first two quarters of this fiscal year, the Rent Equity Board expended 44% of its total personnel allocation. In three other categories, the Rent Equity Board is underspending to a significant degree. These are: contractual services (20% expended), supplies and materials (.03% expended), and current charges and obligations (.02% expended).

The Board is divided into four program units: rent section, legal section, eviction/condo compliance, and client services. Each provides a different service to Boston's tenants and landlords. The Rent Section is authorized for eight positions -- seven are currently filled. The rent section's personnel costs total \$107,759. In a one-year period (Jan. 1, 1983 - Dec. 31, 1983), this section processed 486 cases (rent increases, rent grievances, condo compliance, and vacancy decontrol compliance) with 71 still pending. The personnel cost per completed case is \$221.72.

The legal section has four staff positions at a total personnel cost of \$86,592. A summary of activities completed from Jan. 1, 1983 - Dec. 31, 1983 shows a total of 117 new cases, with 102 resolved. Three hundred twenty cases are being carried over from 1983 and prior years.

The eviction/condo compliance section is principally responsible for granting eviction certificates in rent-controlled units and monitoring the tenant notification process in eviction cases related to condominium conversion. It includes three current staff members whose salaries total \$48,529; a fourth staff position is vacant. From Jan. 1, 1983 - Dec. 31, 1983, staff held a total of 406 hearings; on the average it takes five weeks to receive a decision through this section.

Client services is staffed by five, at a cost of \$50,139. This section is primarily responsible for information/referral and processing applications. They refer an average of 400 clients per week, and directly assist 150. Although landlords are required to register their property through this section, there is no practical mechanism to ensure that units have been registered.

The level of staffing appears low. In the rent section, only four hearing officers are available to hear rent grievances and investigate compliance violations from a potential population of 30,000 controlled units and 28,000 units occupied by elderly, handicapped, and low/moderate income tenants. There are 25 City-funded positions in the Rent Equity Board beyond the five salaried board members. Fifty-two percent of the positions are covered under a union contract (Local 285); there are no civil service employees. Union salaries are established through negotiations with the City. The average salary for a unionized worker is \$13,727.

Management salaries are based on the salary plan developed by the prior administration. The average management salary is \$26,113, 47% higher than the average union salary.

The roles of workers in the four functional sections of the Rent Equity Board are clearly defined. Senior management roles are not. Two staff positions, Project Manager (salary \$29,000) and MIS Systems Manager (salary \$22,700), should be closely examined. The responsibilities of the first position are unclear; the second position is responsible for the implementation and development of an MIS system. To date, the Rent Equity Board has no computerized data. An analysis of computerization need was completed through subcontract at a cost of \$2,500.

The success of the Rent Equity Board in fulfilling its educational, service, and data base development is an open question. Approximately 28,000 tenants (elderly, handicapped and low/moderate income) have the legal right to grieve rent increases. The grievance process has been in place for six months; to date a total of 174 have been processed. Public information efforts have been minimal.

All rent control data is processed manually and held in a central file. The statistical format counts service units, but does not record distribution of those units by neighborhood, race or language minority. The Rent Equity Board has no facility for needs assessment, management planning or program evaluation. In addition, the Rent Equity Board office lease expired December 31, 1983. Funds must be reallocated for moving expenses (approx. \$30,000) and rental costs.

VII. VETERANS SERVICES DEPARTMENT

Cities and towns in the Commonwealth are required by Chapter 115 of the Massachusetts General Laws to provide benefits and assistance to veterans and their dependents. Chapter 115 also mandates that each city and town appoint a veterans services agent, a veterans burial agent, and a veterans advisory board. The Commonwealth reimburses the City 50% of the costs of veterans' benefits.

There are an estimated 745,000 veterans in Massachusetts; 8.8% (65,552) of this population lives in Boston. Boston's Veterans Services Department is located on the second floor of 26 West Street, in downtown Boston. Services offered by the department include job referral and claims processing assistance for benefits including V.A. pensions, Social Security, and vocational rehabilitation. Benefits include financial assistance for food, clothing, shelter and medical care. The Program is, however, selective. Veterans are required to meet three conditions: war time service with an honorable discharge, legal residency in Boston, and financial need. Eligibility criteria and assistance payments are determined by the State's Veteran Services Administration.

The Veterans Services Department has 28 employees, divided among six functional units:

- o The billing unit monitors and makes payments to hospitals, pharmacies, and physicians for expenses of eligible veterans.
- o The finance unit monitors departmental expenditures, payroll and personnel matters.
- o The application unit interviews veterans applying for benefits

- o The investigation unit checks the eligibility status of each application.
- o The community relations unit conducts outreach and communications with local veterans organizations.
- o The job referral unit provides job counseling and referral to all employable benefit recipients.

Thirteen employees are provisional appointees who have requested Section 26 Permanent Status. Included within those seeking permanent designation is the Executive Assistant.

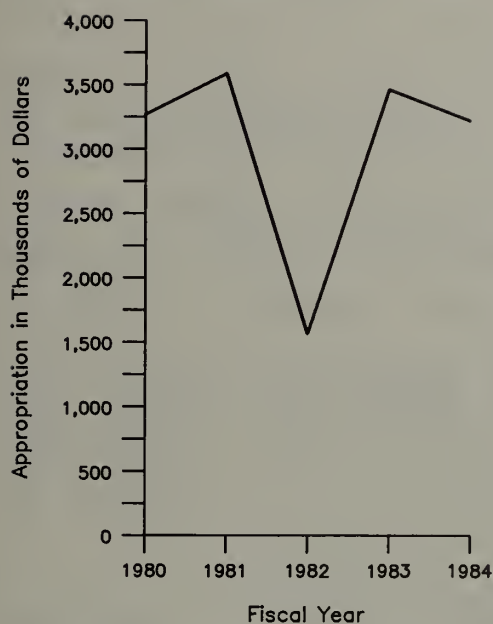
Not reflected in the organizational chart is the Veterans Graves Registration Division. Although the Division technically is part of the Veterans Services Department, in the City's activity budget this division is represented as a separate appropriation account, and the Commissioner of Veterans Services reports little oversight of the Graves Registration Division by his Department. The Division employs three individuals, a supervisor and two clerical staff.

Veterans Services Funding

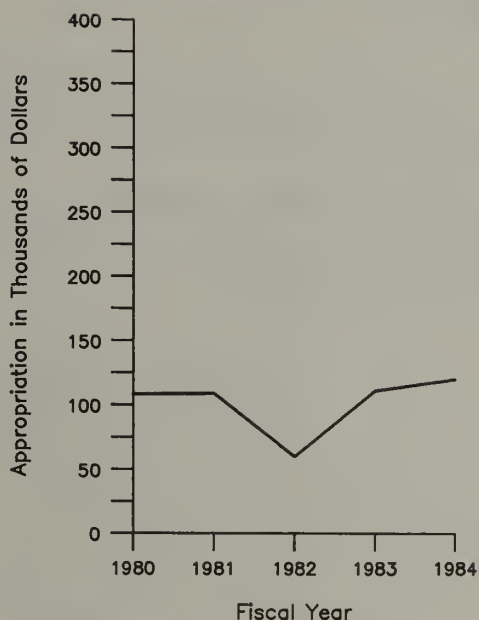
The account histories of the Veterans Services Department and the Graves Registration Division are depicted below.

Display 2

Veterans Services



Veterans Graves Registration



Both of these accounts show substantial appropriation reductions in FY 1982 related to the impact of Proposition 2-1/2. In the Veterans Services Department these cut-backs required the layoff of 27 staff. In FY 1983, 94% of the Department's cuts were restored.

In FY 1984 expenditures for the Department and the Graves Division are allocated as follows:

<u>FY 84</u>	<u>Veterans Services</u>		<u>Veterans Graves Reg</u>	
Personnel	\$ 671,590	21%	\$ 55,650	46%
Communications	14,000	.4%	1,000	.8%
Service of Equip.	1,500	.05%		
Travel	12,500	.3%	1,000	.8%
Misc. Contracted Svcs			62,000	52%
Office Supplies	7,000	.2%	600	.4%
Aid to Veterans	2,509,201	78%		
Other Charges	5,000	15%		
TOTALS	<u>\$3,220,791</u>	100%	<u>\$120,250</u>	100%

The State reimburses the City for 50% of all benefits paid. Reimbursements for FY 1984 benefits would reduce the net City expenses for the Veterans Services Department to \$1,966,191.

Two amendments to Chapter 115 were proposed in the Massachusetts legislature in 1983 to raise the reimbursement rate for veterans benefits from 50% to 75%. These amendments narrowly failed. Passage would have saved the City \$627,300 in FY 1984.

As of November 1983, the Department reports 759 active cases, representing 1,076 beneficiaries. During the past 15 months a 22% decrease in cases and a 24% decrease in beneficiaries was reported.

The Department records monthly statistics differentiating between new cases, ongoing cases and reapplications. The number of individuals receiving job counseling are recorded by "placed in job," "active case," or terminated. Clients are coded by the war in which they served. However, the Department does not compile these codes, thus prohibiting analysis of older versus younger veterans. Also, the Department does not collect data on sex, race, residential location or disabling condition. The absence of this data prevents the Department from presenting client profiles.

The application unit reports an average of 600 walk-ins per month. This unit has a supervisor, two social service technicians and a clerical assistant. On an average day 29 intakes are conducted, 14.5 intakes per technician. Comparing intakes with monthly investigations of new cases indicates that only 6% of all applicants are determined eligible for further assessment.

The job referral unit averages 42 new clients per month. This unit has three employees -- a job referral specialist and two administrative assistants. It conducts both individual and group sessions related to job placements. Of all clients serviced each month, 12% are placed in jobs, 31% remain active cases, and 57% are terminated.

Present client demand does not require the existing personnel levels within the Department. For both administration and direct services, personnel reductions combined with Department reorganization could occur while maintaining current service levels. Proposed personnel reductions include:

- o 3 clerks (billing unit);
- o 1 administrative assistant (job referral unit);
- o 1 community relations specialist;
- o 1 Assistant Commissioner (application unit);
and

TOTAL 8 personnel = \$162,668 annual savings.

Proposed reorganization would consolidate the application unit with the investigation unit, and the finance unit with billing; streamline the community relations and job referral units; and bring the Veterans Graves Registration Division directly within the Veterans Services Department. It is recommended that the procedures currently in operation for conducting intake, investigations and data collection be consolidated. Personnel and support cost savings realized by this proposal are projected to be \$150,000 annually.

The consolidation of the finance and billing units would save three salaries and align these responsibilities under one supervision. The elimination of the Community Relations Specialist is not expected to affect Departmental outreach efforts. Presently the Community Relations Officer, the Commissioner and Assistant Commissioner all report community relations functions. Outreach efforts need to be analyzed for effectiveness. Three individuals are engaged in this area, but no funds are allocated for public information materials. The only brochure available lists an incorrect address for the Department.

In the job referral unit client demand does not require existing staff levels. Further, only 12% of all clients are placed in jobs. The effectiveness of this unit and the duplication of effort with other City and State employment programs require review.

VIII. HISPANIC ACCESS TO HUMAN SERVICES

Introduction

To accomplish the goal of ensuring the delivery of public services to all neighborhoods more efficiently and effectively services must be designed for, and offered to, all segments of the Boston population. That population is changing rapidly, as clearly indicated in Table 1, drawn from Census Bureau figures.

TABLE 1

BOSTON'S POPULATION BY RACE AND
SPANISH ORIGIN 1970-1980

	<u>1970</u>	<u>1980</u>	<u>% CHANGE</u>
White	524,709	393,937	-24.9
Black	104,707	126,227	20.5
Other ^a	11,555 ^b	42,828 ^c	270.6
Hispanic	<u>17,984</u>	<u>36,060</u>	<u>100.5</u>
TOTAL ^d	<u>640,971</u>	<u>562,994</u>	<u>-12.1</u>

a Other includes Japanese, Chinese, Filipino, Korean, Vietnamese, American Indian, Hawaiian, Guamanian, Samoan, Eskimo, Aleut or other.

b Spanish language

c Spanish origin

d Columns do not add to total because Hispanic may include White, Black and Other.

Hispanics have become the second largest minority population in the State of Massachusetts.

There are three major areas where Hispanics are concentrated in the City of Boston. They are: Jamaica Plain-Fenway, Dorchester-Mattapan, and South End-Lower Roxbury. For the future planning of services delivery, note should also be taken of the growing Hispanic neighborhoods in Allston-Brighton and East Boston.

Because of low socio-economic conditions and major cultural and linguistic differences from mainstream society, Spanish-speaking people have a critical need for the development and implementation of a wide range of specialized human services. This section reviews how well those needs are being met by the City departments covered in this chapter. Hispanic community reaction is also included.

Commission on the Affairs of the Elderly--The Commission has contracted with 23 agencies in the City of Boston to provide services to the elderly. Of those 23 agencies, Alianza Hispana and Jamaica Plain Senior Team principally provide services for Hispanic elderly. The Commission has started, through its meal^s program, to provide Spanish meals in the Columbus Avenue program. The Commission also has a newspaper, the "Boston Seniority," that was printed in Spanish until two years ago. The rationale for terminating the Spanish version was lack of interest from the Hispanic elderly community. The Commission also makes presentations, whenever requested, on its programs in Spanish, and printed information regarding the Commission's services is available in Spanish. Presently, the Commission has one Hispanic outreach worker and two bilingual staff in administrative and middle management positions.

A study conducted by the Commission in 1983 on the needs of the elderly in the City of Boston contacted 83 Hispanic elderly. The results showed little usage of or familiarity with services for the Hispanic elderly. A high number stated that they needed transportation services. Most of the elderly related to Alianza Hispana.

The Hispanic community appears to feel that even though the Commission has been providing services to the Hispanic elderly, those services could be improved, and programs should be revised and made relevant to the specific needs of Hispanics. Lack of Hispanics in the Commission's policy-making process may have had a negative effect on the quality and provision of services to the Hispanic elderly. Because of language, socio-economic and educational barriers, delivery of services to non-English-speaking elderly is more difficult. The Hispanic elderly not only use services for the elderly less, but are also less familiar with

them. More outreach is especially important in the medical area.

Handicapped Affairs Commission--The Commission does not do a statistical breakdown in terms of race, ethnicity, or neighborhood of requested services. Of a staff of seven, there is one social worker who has a minimal knowledge of Spanish. Through this social worker an informal arrangement has been made with the Commission on the Affairs of the Elderly to have a Spanish-speaking interpreter available whenever there are communication difficulties. Still, the Commission does not receive many calls from Hispanic handicapped people. No information regarding the Commission's services is available in Spanish. The Commission would like to hire a Spanish-speaking person in order to provide better services to the Hispanic community and is planning to contract out for the translation into Spanish of a brochure to be disseminated to the Hispanic community.

There is a need for more services to be given to the Hispanic handicapped, such as more bilingual educational and vocational programs. Through the Hispanic unit of the Massachusetts Rehabilitation Commission, services have been provided to approximately 1,200 Hispanic handicapped since the program started five years ago. Attempts to open up the job market should be made by City Hall as well as at state level.

Emergency Shelter Commission--The Commission does not keep statistical records based upon race or ethnicity. There are no Spanish-speaking or Hispanic staff, but the Commission would like to "have someone that speaks Spanish.". There is no printed information on the Commission available in Spanish. The Commission receives many calls from Hispanics with housing problems. On the other hand,

the battered women shelters are not using Commission services, due to an "issue of confidentiality."

Services from the Commission are needed in the Hispanic community, particularly with single mothers and children. An average of 800 single women with children per year were given shelter at Casa Myrna Vasquez. Respondents also noticed a growing population of homeless single Hispanic males. The Commission may be unaware of the specific needs of the Hispanic community.

Fair Housing Commission--Up to December 1, 1983, the Commission recorded a total of 2,000 complaints, of which 18% (360) were discrimination complaints from Hispanics.

The Commission has five Spanish-speaking staff out of a total of 18 personnel. The Commission has utilized TV spots in Spanish and has translated forms and brochures into Spanish, which have been disseminated to certain programs or agencies that serve the Hispanic community. The Commission has not been widely utilized by Hispanics. Clear linkages with the Hispanic community need to be promoted.

Large numbers of Hispanics in Boston live in sub-standard housing conditions and often experience discrimination while searching for adequate housing. This is the case particularly with single mothers with children, welfare recipients and those with language barriers.

Rent Equity Board--The Board has no client statistical information broken down by race, ethnicity or neighborhood. There is only one staff member in an administrative position who has a working knowledge of Spanish. Most forms are written in Spanish, but there is no general information regarding services available in Spanish.

Orientation regarding the Board's services will be provided upon request. The Board needs an assessment of Hispanic community needs. Presently, there are no organized plans to disseminate information regarding the Board's services to the Hispanic community. Steps have been taken towards translating a general information format to be disseminated through the two main Hispanic newspapers in the community.

Efforts to spread information regarding the services provided by the Rent Equity Board have not been felt widely in the community. Clearly there are language barriers in dealing with the office.

Department of Veterans Services--The Department does not keep any statistical information by race or ethnic background. Few Hispanic veterans request services from City Hall. There is one Hispanic in a clerical position. When Hispanic veterans request services, for the most part the Department collaborates with the Director of the federal Veterans Center Outreach Program, located in the South End. The Department has been able to establish a good relationship with this office, but training should be given to those who provide services to the Hispanic veterans.

In general, the delivery of services should be culturally responsive, accessible, visible and available to the Hispanic veterans.

IX. RECOMMENDATIONS REGARDING HUMAN SERVICES DEPARTMENTS

General

- o The Mayor's human service policy needs to be clearly defined and communicated to line departments and commissions.

- o A uniform collection system of client demographic data must be developed and applied to all agencies.
- o Interdepartmental communication procedures with emphasis on joint planning and problem solving should be established.
- o Inter-governmental lobbying activities of individual human service issues should be guided by the Office of Inter-Governmental Relations.

Commission on Affairs of the Elderly

- o A data collection system that is consistent across service categories should be developed to ascertain distribution of City resources by race and neighborhood.
- o The physical condition of the Senior Shuttle fleet should be reviewed and decisions to replace or repair aging vehicles should be made.
- o The costs and benefits of a donation system for the Senior Shuttle should be reviewed.
- o Senior Shuttle vans should be parked in a central location during evening hours.
- o The Commission should develop strategies to increase coordination with Boston's three Home Care Corporations.
- o The role of the legislative liaison should be reviewed for possible transfer to the Inter-Governmental Relations Office.

Handicapped Affairs Commission

- o The Commission's mission and existing work plans require policy and management review.
- o A consolidation of this Commission with the Elder Commission should be considered.

- o The designation of the Commission's Director as the City's 504 compliance officer must be reevaluated. Further, the 504 compliance officer should chair a committee representative of all departments to evaluate the requirements of 504 regulations.
- o The present office space, which is functionally inaccessible to the physically handicapped, should be changed.

Emergency Shelter Commission

- o The present role of the Commission as coordinator of state, federal and private funding of homeless programs in Boston should be clarified and analyzed with respect to the reorganization of housing programs.
- o The Robert Wood Johnson proposal process requires immediate attention in order to meet proposal deadlines.
- o Dialogue with state and federal officials related to mentally ill homeless, and Medicaid reimbursements for treatment of homeless individuals should be initiated.
- o Comprehensive program and fiscal analysis surrounding the proposed expansion of the Long Island Shelter should be completed prior to approval of a supplemental appropriation for expansion.

Fair Housing Commission

- o Formal communication with the Mayor's Office of Housing Policy should be established.
- o The Commission should prepare proposals for CDBG funds.
- o CDBG funds should be monitored by NDEA.
- o Compensation for Commissioners should be reviewed.

- o The legislative role of the Commission needs to be analyzed and closely coordinated with the Inter-Governmental Relations Office.

Rent Equity Board

- o The terms of the current Board members expired January 2, 1984. New appointments need to be made promptly.
- o The Rent Equity Board's lease expired December 31, 1983. The need for new space is immediate as the Board is a tenant at will. Additional funds must be allocated for moving expenses.
- o The manual system of data collection is inefficient. The system must be computerized to produce timely and accurate data.
- o The Rent Equity Board has a minimal level of line staff, which should be increased to provide faster service to landlords and tenants. Senior management level positions should be carefully reviewed to clearly define job responsibilities.
- o A program of public education that focuses on tenant and landlord rights under the Rent Equity Law does not exist. This should be planned and implemented, and should include strategies to ensure outreach to language minorities.

Veterans Services Department

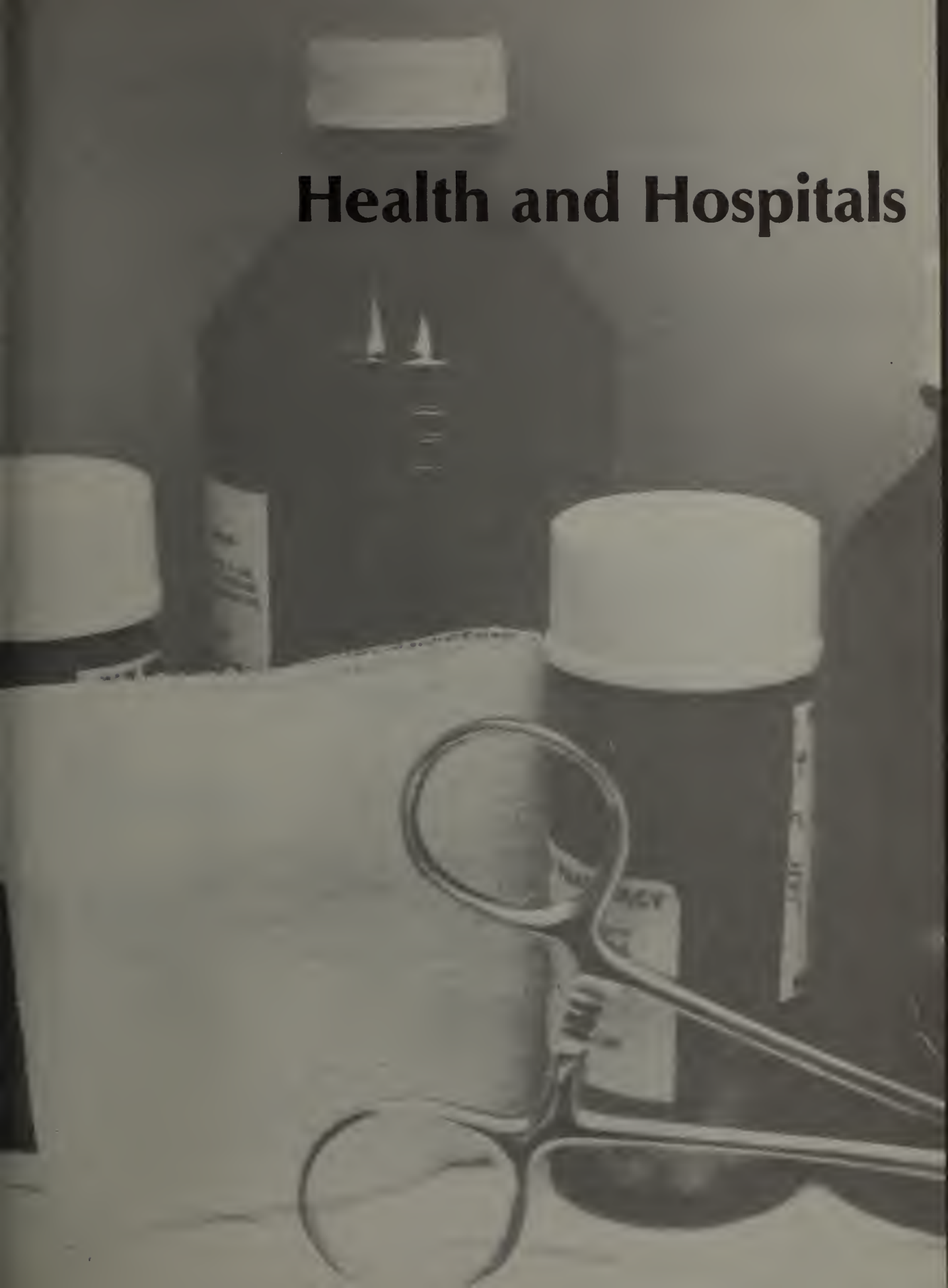
- o Reorganization and consolidation of program units is recommended. The proposed reorganization would eliminate eight positions and produce annual savings of \$200,000.
- o The Veterans Graves Registration Division requires management review and should be brought directly into the Veterans Services Department.

- o Dialogue with state officials should begin to increase the reimbursement of veterans benefits from 50% to 75%, producing annual savings of \$627,300.

Hispanic Access

- o A further detailed review of the social service needs of the Hispanic community, as well as resources available, should be undertaken.
- o An outreach program should be developed with the Hispanic community in order to promote inter-agency collaboration in sharing resources and expertise, avoiding duplication and, consequently, improving the human service delivery network for the Hispanic population.
- o Efforts should be made, in all City Hall departments, to ensure bilingual and Hispanic staffing at all levels of service delivery and planning.
- o City Hall administration should ensure that translations of forms, brochures, and other related consumer documents be made available in Spanish.
- o At some point, cross-cultural training on the Hispanic culture should be provided to all departments that provide social services to the community.

Health and Hospitals



SUMMARY AND RECOMMENDATIONS

Any analysis of the Department of Health and Hospitals must begin by recognizing the following four points:

1. The Department is the primary source of health care for many people who would otherwise get none.
2. The Department is a major economic force in the City. The annual subsidy from the City of \$20 to \$30 million attracts approximately \$100 million in state, federal and insurance funds.
3. The Department is a major political force in the City because many residents and families are dependent upon it for their livelihoods.
4. Most City departments are completely funded by the City. Therefore, savings can be accomplished by reducing costs. The DH&H, on the other hand, earns most of its money from payments for services. Therefore, its cost to the City can be reduced, with least hardship both to its patients and employees, by increasing income.

Recommendations

The following recommendations are divided into two groups. The first group is of overriding importance to the future of the Department. The second group is of major significance to the future of the Department.

Recommendations of overriding importance:

1. The services of the Department must be continued. It is unrealistic to consider a major shutdown of the Department's facilities so long as the conditions summarized above prevail.

2. The Department must increase its earned income. The most sensible way to accomplish this is to provide increased services to the elderly, as they are usually covered by Medicare and/or Medicaid.
3. The staff, patients and services of all three hospitals should be consolidated at BCH in facilities that are competitive with those of any other hospital in the City. The Department cannot attract additional paying patients into its present physical plant, nor can it sustain the extra costs created by under-utilized, inefficient buildings.
4. The continued deterioration of the physical plant could result either in sudden, major renovation expenses or in delicensing and consequent loss of revenues. Moreover, even after the sale of the old outpatient building, 265,000 square feet of space at the three hospitals remains unused. The Department must create and implement a master plan for preserving and maintaining real estate.
5. Funding plans for a new facility should consider financing the new facility through the sale or development of the old one.
6. The Department needs organizational and administrative improvement. Chains of command must be strengthened. Authority and responsibility need to be assigned more consistently, particularly in the case of middle and lower management. All staff, including physicians, nurses, providers of general services, and administrators, need to be brought into a more organized, directed, and effective structure.

Recommendations of major significance:

1. The system by which the City budgets and funds the Department is not proper for a group of services that earn over 70% of its funding. The City should budget its subsidy to the Department, but let the Department manage the money so it can maximize earned income.
2. Several fiscal problems relating to reimbursement for services provided to patients covered by Medicaid, Medicare and private insurance remain. The Department is working on these matters and expects to resolve them satisfactorily; nevertheless, they need to be monitored. They include:
 - Several issues relating to the \$300 outpatient visit rate, including the possibility of a payback to Medicaid of \$15 million; a suit brought by private insurers for \$5 million; and the potential loss of future revenues if the \$300 per visit fee is ended.
 - Several issues relating to the new hospital reimbursement scheme known as "Chapter 372," and in particular the amounts of free care and bad debt that will be allowed for inclusion in reimbursement formulas.
3. The patient census in the chronic disease hospitals is falling off because Medicaid and Medicare regulations for chronic care services have become much more restrictive. The Department's plans to create an integrated system of services to the elderly require the Administration's support to prevent a continued deterioration of census and payer mix.
4. The Department's health management organization, known as the Boston Plan, will lose its subsidies for free care patients and has not been able to attract sufficient numbers to make up for

the loss of paying patients. A realistic decision about the Plan needs to be made within the next six months.

BACKGROUND

Department of Health and Hospitals

The present system of public health care facilities and programs for residents of Boston was organized in 1966 under one administrative body, the Department of Health and Hospitals (DH&H). Overseeing the administrative body of DH&H is a nine-member, Mayorally-appointed board. The board is primarily charged with the responsibilities of any city board of health: the mandatory duty to report disease; the duty to ensure hospitalization of diseased persons; and the duty (shared with the Department of Inspection and Services) to enforce the sanitary code. Significant to the board is its additional role as a corporate body known as the Trustees of Health and Hospitals of the City of Boston. The Trustees' powers include taking and holding property given, granted, bequeathed or devised to the Trustees and accepted by the Board for health or hospital purposes, and entering into arrangements for contracts, grants and gifts from governments, foundations, businesses, and individuals.

The DH&H Administrative Unit is composed of three separate operating divisions: the Boston City Hospital, the Chronic Disease Division, which includes Mattapan and Long Island Hospitals; and the Division of Community Health Services.

Boston City Hospital--The BCH, Boston's third oldest and only public hospital, opened its doors in 1864. It was founded as an

asylum for the industrious and honest mechanic and laborer who by sudden injury or disease is temporarily prevented from laboring for the support of himself and family

and as a

home to which a respectable domestic might be sent ... whose attic chambers cannot be made comfortable and who cannot receive the requisite attendance.

(City Hospitals, Dowling, Harry F., Harvard University Press, Camb. MA., 1981, p. 31). Although the hospital was required to accept all comers, many of whom were among the poorest in the City, it was established as a hospital for the deserving poor, not an almshouse, as were many of the early public hospitals. Lofty objectives of City and hospital officials alike tended to elevate both staff morale and the public perception of the institution.

Historically, BCH has served as a major teaching hospital, at various times for the medical schools of Harvard, Tufts and Boston Universities. Many of the research facilities and additional patient buildings were built with donations from prosperous City patrons, who were cared for by the same world-renowned MDs serving on the BCH medical school services. Since 1973 BCH's exclusive affiliation has been with Boston University's School of Medicine.

BCH established one of the nation's first schools of nursing. Despite its reputation as one of the top hospital nursing programs in the country, competition from academic programs forced its RN certificate program to close in 1975. Presently it runs two LPN training programs: a full-time day and a part-time evening program. The school is funded by federal dollars, small endowments and City monies. It recruits a majority of its students from low-income and minority neighborhoods in Boston. Most of

its graduates are employed by the Department. Arrangements have been made through Roxbury and Bunker Hill Community Colleges and University of Massachusetts (Boston) to give interested nursing students the opportunity to gain an Associate or Baccalaureate Degree and RN certification. The LPN program has doubled its enrollment in the past few years, an increase attributable in part to flexibility of the part-time evening LPN program.

In the last 15 years BCH has consolidated its acute care services and closed a number of its units due to lack of use. Once a sprawling 1180-bed hospital, it now has only 436 beds. These changes, along with the 1973 departures of the Harvard and Tufts teaching programs, have created empty wards and unutilized research floors that DH&H must maintain.

Even with the reduced number of hospital beds, however, occupancy has generally declined over the past several years. This trend is expected to continue by reason of the enactment of G.L. ch. 372, the hospital cost containment statute. The table below reflects overall hospital bed use.

TABLE 1

DH&H PATIENT VOLUMES
1980 to 1984 (5 mo. ending 10/31/83)

	<u>1980</u>	<u>1983</u>	<u>1984</u>
<u>BCH</u>			
<u>I/P</u>			
Patient Days	137,003	135,881	39,802
Available Days	171,185	171,185	57,687
% Occupancy	80%	79%	69%
<u>O/P</u>			
Clinic Visits	160,646	137,771	46,204
Emergency Floor	91,041	38,779	12,605
Pediatric Visits	N/A	23,278	7,935
Ambulance Trips	<u>N/A</u>	<u>27,004</u>	<u>9,043</u>
TOTAL O/P	251,687	226,832	75,787

These figures were obtained from the RCS 401 report.

Data covering the period from July 1980 to June 1982 suggests that patient volumes at individual hospital units have generally remained constant, with the exception of the medical unit where the volume has varied by 10% within a given year.

Chronic Disease Division--The Chronic Disease Division consists of the Long Island and Mattapan Hospitals. Long Island Hospital was established in 1890 as the Boston Almshouse, and became the Long Island Hospital in 1927. Mattapan Hospital was established in 1907 to provide care for patients with pulmonary tuberculosis. Today, both hospitals provide long-term care for chronically ill individuals and some rehabilitative care, primarily for head-injured patients.

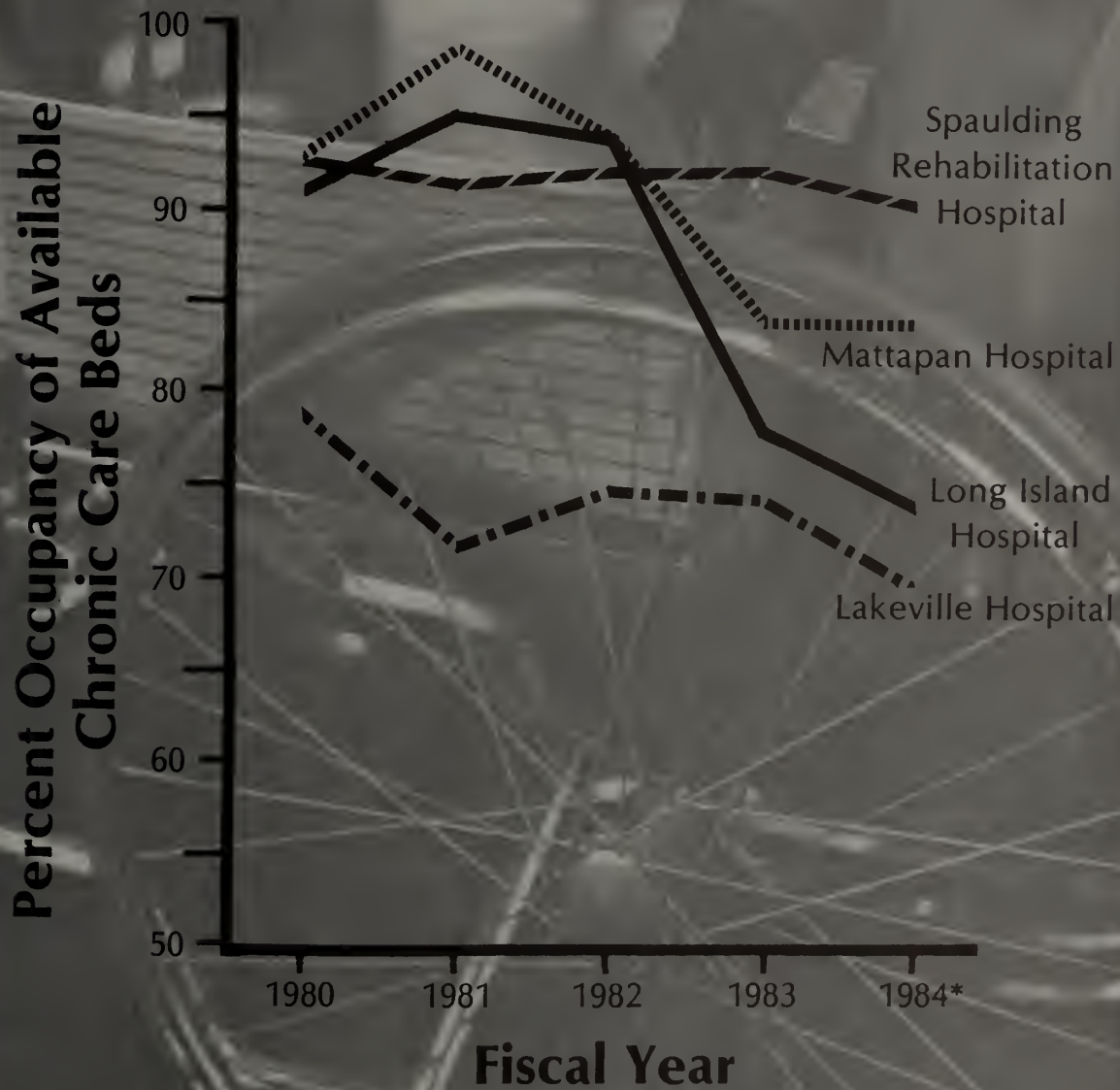
The bed capacities of both institutions have been reduced over the past 15 years. At Mattapan, the capacity was reduced from 376 to 165 beds. At Long Island the capacity of the chronic unit was reduced from 631 to 260, and the alcohol rehabilitation unit from 439 to 114. Occupancy has fluctuated over the years. Recent changes in the Medicaid regulations concerning criteria for chronic care admissions and continued utilization review have resulted in lowered occupancy. Currently both hospitals seek patients with third-party coverage and refuse to admit patients without it. Despite their effort to increase revenue, the census is so low that the facilities admit Level 2 and Level 3 -- Skilled and Intermediate Nursing Care -- patients with third-party coverage on "AND" status (administratively necessary days). The rate for these patients is matched to the services provided and represents a loss compared to the rates charged for chronic care services. However, the prevailing opinion is that some income is better than none.

Below is a display comparing bed use at the two hospitals to bed use at Lakeville Hospital (a state-run chronic/rehabilitation hospital) and at Spaulding Rehabilitation Hospital (formerly the Massachusetts Rehabilitation Hospital, a private hospital) during FY 1980 to the present. The display suggests that trends in use at Boston's chronic care hospitals are similar to those at other hospitals serving large numbers of Medicaid or Medicare patients and dissimilar to those at hospitals serving large numbers of privately insured patients. The term "available days" refers to the total number of licensed bed-days used, while "available beds" refers to the number of beds available for patient use. It should be noted that the fiscal year for Mattapan, Long Island and Lakeville Hospitals begins on July 1, whereas the fiscal year begins on October 1 at Spaulding.

Community Health Services--The Community Health Services Division finances 22 community health centers and operates community health programs in the areas of disease prevention, environmental health, maternal and child health, and elderly health. The division also administers the City-wide ambulance service, the 24-hour Emergency Room, a Pediatric Walk-In Clinic, and the Ambulatory Care Center at BCH.

The health centers began in the late 1960s and early 1970s in response to the lack of available primary health care services. Few private practice family physicians remained in Boston's neighborhoods, and by default, hospitals had become the major providers of medical care. Community health centers were designed to bring qualified physicians back to the neighborhoods as well as to

Comparison of Chronic Care Capacity Utilization Rates



*Represents either two or four months of operation depending upon the ending month for each hospital's fiscal year.

integrate clinical and preventive medicine in community-based and community-controlled settings. The neighborhood health center system in the City has the most potential to meet the primary and preventive health needs of Boston's residents and is the most loosely tied to the Department in terms of administration and funding. Each community health center is managed by an administrator hired by its own board of trustees. Each center runs independently, in an attempt to meet the health needs of its own neighborhood. Each health center acquires its own funds, including both state and federal funds, to supplement City monies.

Beyond the extensive provision of quality primary medical care, health centers take a broad view of their communities' needs. For example, responding to the void in housing, health and social services for the elderly, some centers have developed a continuum of services from home-health aide coverage to nursing home programs.

The development of health centers has meant that many public health programs and services formerly centrally administered could be decentralized and incorporated into the programs of the centers. It has also meant that some programs were no longer necessary. For example, the public health well-child clinics and home visiting programs initiated in the '20s were no longer necessary in 1980 because pediatric services were made available through the health centers.

While some programs were shifted to the health centers and some, such as the TB program, were reduced because of changing needs and/or treatment techniques, others were developed in response to newly recognized needs. For example, new environmental health programs were established to address problems of rodent control and lead paint poisoning.

Trustees of Health and Hospitals--There is a private, non-profit corporation known as the Trustees' Corporation, which serves as the fiscal conduit and operator of a number of research and administrative activities. The Trustees' Corp. provides the Trustees and the Commissioner with a small degree of flexibility in dealing with agencies which make research grants, providing support to neighborhood health centers, and other worthwhile smaller activities. The Trustees Corp. is analogous to similar organizations which exist at state institutions. The Department carries a receivable of \$2.3 million from the Trustees, which is principally generated by overhead on research grants.

Various Perceptions of the Department

The facilities of the Department of Health and Hospitals mean many things to many people. To the patients the hospitals provide care. To the Boston University Medical School the hospital is the vehicle for over 40% of its teaching and training activities. To nurses, physicians, and other professional and skilled employees the Department provides desirable employment opportunities. To less-skilled employees the Department provides employment to those who might otherwise have none. To suppliers, consultants, local businesses, advertising agencies, and others the Department provides economic opportunity. To health care regulators, third-party payers, and other hospitals in the city, there is considerable ambivalence towards the three DH&H hospitals: they provide much-needed service (including the major share of free care in the City), but are always on the brink of financial and regulatory disaster. To community health centers the Department is viewed as the most accessible and supportive governmental agency. Finally, friendly critics believe the Department provides greatly

needed services to the poor, but lacks the facilities and organizational strength to do so competitively with other City hospitals.

CASE STUDIES

Four case studies of patient care, from which all identifying data have been removed, are summarized below. They illustrate some of the difficulties which are inherent in providing health care to an inner-city community and which contribute significantly to the cost of providing care.

Charles J.

Charles J. is a two-month-old child admitted to BCH last December. His admitting diagnosis was hydrocephalus (excess fluid in the brain causing the head to grow to abnormal proportions to accommodate the excess fluid), with possible developmental delay and severe visual impairment.

Charles had an uncomplicated birth at South Miami Hospital, in Miami, Florida. He was born to Marie, a 28-year-old Haitian woman who entered this country illegally last year. While in Miami she met another Haitian refugee and conceived Charles. When Charles was three weeks old, Marie brought him to South Miami Hospital with a concern about his growth and development. Following a routine check-up, he was sent home. Two weeks later, she brought him back for further evaluation. At the time it was noted that his head circumference had increased from 33 cm to 42 cm. A week later, when his head measured 46-1/2 cm the staff recommended elective surgery to insert a shunt to drain the excess fluid from his head. He was scheduled to

be admitted to South Miami Hospital in November. By then, however, Marie had moved to Boston, where she has relatives, a decision precipitated by the death of the baby's father in a car accident.

Surgery was successful. The draining off of the excess fluid through the shunt has allowed the baby to gain some vision. He is beginning to track objects with his eyes and has begun to grow. There remains a concern about possible developmental delay, so his discharge plans should include active follow-up.

However, Marie's situation presents a number of obstacles to discharge. She lives with a cousin, whose apartment has no heat. On cold days she stays with a distant relative, whose household already consists of seven people. Neither her two stepbrothers nor her uncle, all of whom live in Boston, will let her move in with them, probably because of the stigma of Charles's disability and illegitimate birth. Without a relative to sponsor her, however, it is unlikely that Marie's situation will change. She has no money to move into her own apartment. She has no skills, and her illegal status prevents her from applying for work or for welfare for herself. The social service staff, doctors, and nurses have all spent hours encouraging family members to take responsibility for the situation. The state Department of Social Services was contacted two weeks ago to investigate the possibility of foster care. As yet there has been no response. Charles is presently in the hospital on AND status (administratively necessary days) with a charge to Medicaid of approximately \$300 per day.

Edward C.

Edward C., a 57-year-old white male, was admitted to Boston City Hospital in October 1983. His primary diagnosis upon admission was severe head trauma resulting from a fall down a stairwell. A secondary diagnosis was substance abuse, which is presumed to be the cause of the accident. He was evaluated using the Glasgow Coma Scale: unresponsive to verbal commands, no observable motor response, and no observable eye opening response.

In early November he was transferred from the Intensive Care Unit to the Medical Unit. A referral for Medicaid was made on November 8, in anticipation of chronic hospital care. On November 18, he was screened by Long Island Hospital and medically accepted for admission.

Because of the nature of the injury, it was difficult to obtain information about his financial resources. Mr. C. is estranged from his wife and daughter. Hospital staff contacted his sister for medical history and information regarding his financial resources. She is reportedly a substance abuser as well, and has been unable to follow through consistently on their requests. According to the billing worker, four pieces of documentation are needed in order to process an application for Medicaid: a birth certificate; a medical statement that the patient is expected to be disabled for a period of one year, evidence of residency (the patient's sister said she would sign an affidavit that Mr. C. has been a life-long resident of South Boston); and income verification (the patient's sister stated that he is a retired City of Boston employee who receives a pension check of \$735.98 each month and has no savings). The information was given to the admitting office at Long Island Hospital. Unfortunately it took the hospital

billing office 23 days to make the decision for financial clearance, and by that time Mr C. had recovered to the extent that he no longer met the medical criteria for admission to Long Island as a chronic care patient.

By the end of December, Long Island and Mattapan Hospitals changed their medical admission criteria to include Level 2 (skilled nursing) patients, and Mr. C. was certified to be eligible for Level II-Skilled Nursing. However, his discharge from BCH has again been delayed. In order for Medicaid to fund a nursing home patient, the Welfare Department must approve the Medicaid application. Yet Mr. C's. application cannot even be processed because the BCH billing worker has not received a copy of Mr. C's. retirement check, required to verify his income. As a result, he has remained on AND status for seven weeks, at a cost to the City of approximately \$500 per day.

Robert M.

Robert M. is a 46-year-old Haitian who has been admitted to BCH repeatedly for treatment of frostbite of his legs and feet, most recently in mid-December.

For the past two years, he has been living in the Symphony MBTA station. His history is unavailable, as he is either unable or unwilling to reveal information about himself. On two previous occasions, he has been committed to a mental health facility. On the first occasion, because of the serious nature of his medical condition, he was immediately transferred to Lemuel Shattuck Hospital. He remained there for three weeks, and was then discharged. In January 1982 he was committed to an area Mental Health Center, where he remained for 35 days. His hospital records

are unavailable as he refuses to sign the necessary release forms. Mr. M. is considered to be incompetent by several psychiatrists because of his denial of the nature of his medical problems, his poor judgment, and his inability to make decisions about his care. In February 1983, after two months of hospitalization at BCH, an effort was made through the hospital's psychiatry service to commit him to the DMH inpatient unit of a mental health center. However, admission was refused.

There is a concern that if discharged from BCH he will return to his former life-style where he will be "at risk" to become septic and ultimately die. General staff consensus is that he can be maintained in a nursing home. However, efforts to discharge Mr. M. to a long-term care nursing home program are thwarted so long as he refuses to sign welfare application forms. He is presently entering his twenty-fifth month of care at BCH awaiting a discharge plan. The estimated cost per day for his care is \$400. This burden has been assumed by the City of Boston.

Amos J.

Amos J. is an 83-year-old black male who was born in Boston. In December 1983 he was admitted to BCH from the Long Island Shelter, where he was staying while the rooming house he lived in was fumigated and repaired. He was admitted on an inpatient basis for an "evaluation of his medical status." Within a week of his admission, he contracted pneumonia.

Although he has improved, his discharge has been delayed. First, the landlord refused to let him return until he made other arrangements for his cats (which once num-

bered 23). The hospital staff was finally able to convince him to do so. Then the landlord delayed making the necessary repairs.

In the meantime, the City is absorbing the cost of Mr. J's. stay. His only income is Social Security in the amount of \$426.00 per month. Medicaid applications have been taken at various times in the past, but he has never followed through. A social worker has tried to apply for a conservator, since Mr. J. has no relatives, but he was not interested.

FINANCIAL STATEMENTS

Introduction

The Department of Health and Hospitals and the City do not share the same system for describing the Department's financial activities. The City has a combination accrual and cash system under which it recognizes accrued liabilities but deals with income on a cash basis, making up the difference between the Department's cash receipts and disbursements through a transfer of funds. Moreover, although the City recognizes certain non-cash expenses, most notably depreciation and accrued pension liability, it does not assign cash to these accounts. Instead, they are carried forward in accrued deficit. (The City's Statement of Revenues, Expenses, Operating Expenses and Accumulated Deficit for the period 1980-1983 is set forth in Table 2.)

TABLE 2

CITY OF BOSTON
HEALTH AND HOSPITALS' ENTERPRISE FUND
STATEMENTS OF REVENUES, EXPENSES, OPERATING TRANSFERS
AND ACCUMULATED DEFICIT (Notes 1 and 10)
for the years ended June 30, 1980 through 1983
(in thousands)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Gross Revenues from Services to Patients:</u>				
Room and care	63,451	68,153	76,792	75,510
Clinics	18,263	21,591	37,246	51,030
Special services	<u>35,071</u>	<u>39,862</u>	<u>105,822</u>	<u>261,810</u>
Gross revenues from services to patients	<u>116,785</u>	<u>129,606</u>	<u>219,860</u>	<u>388,350</u>
<u>Deductions from Gross Patient Revenues</u>				
Estimated contractual allowances	16,073	12,910	56,744	142,683
Provision for uncollectible amounts, free care services provided to City employees	<u>23,357</u>	<u>38,409</u>	<u>77,751</u>	<u>154,166</u>
Total deductions from gross patient revenues	<u>39,430</u>	<u>51,319</u>	<u>134,495</u>	<u>297,029</u>
Net revenues from services to patients	77,355	78,287	85,365	91,321
<u>Other Operating Revenues</u>	<u>1,636</u>	<u>2,511</u>	<u>2,839</u>	<u>4,967</u>
Total net revenues	<u>78,991</u>	<u>80,798</u>	<u>88,204</u>	<u>96,288</u>
<u>Patient Services Expenses</u>				
Salaries, wages and fringe benefits - regular employees	53,619	55,719	55,168	60,534
Salaries and wages - CETA employees	769	615	53	--
Professional fees	8,464	9,494	9,411	10,711
Pay-As-You-Go retirement costs	8,669	9,280	9,453	8,882
Provision for accrued retirement costs	5,489	5,100	5,585	6,325
Materials and supplies	8,584	1,116	9,874	9,617
Provision for accrued judgments and claims)	1,240	(440)	200	699
Administrative and general	13,348	14,396	18,262	14,505
Interest	2,720	2,830	2,416	2,758
Depreciation	<u>4,056</u>	<u>4,188</u>	<u>4,099</u>	<u>4,823</u>
Total patient services expenses	<u>106,958</u>	<u>112,298</u>	<u>114,521</u>	<u>118,554</u>
Loss from services to patients	<u>27,967</u>	<u>31,500</u>	<u>26,317</u>	<u>22,566</u>
Provision for Medicaid continuing loss from patient services	<u>15,532</u>			
	38,098			
<u>Other Operations Requiring Assistance Subsidies</u>				
Community services, special programs and real estate operations	<u>12,219</u>	<u>13,188</u>	<u>14,337</u>	<u>10,722</u>
Loss before operating transfers	<u>50,317</u>	<u>39,505</u>	<u>45,837</u>	<u>38,689</u>
<u>Operating Transfers from</u>				
General Fund	21,500	19,061	33,851	31,102
Special Revenue Funds	--	53	750	738
Total operating transfers	<u>21,500</u>	<u>19,114</u>	<u>34,601</u>	<u>31,840</u>
Loss	28,817	20,391	11,236	6,849
Accumulated deficit, beginning of year	<u>81,459</u>	<u>61,068</u>	<u>49,832</u>	<u>42,984</u>
Accumulated deficit, end of year	<u>\$110,276</u>	<u>\$ 81,459</u>	<u>\$ 61,068</u>	<u>\$ 49,833</u>
Capital contributions	1,000	2,000	1,000	4,000
City services	--	2,500	2,500	2,500

The Department of Health and Hospitals, on the other hand, employs a conventional hospital and business accounting and reporting system that reports both income and expense on an accrual system. This means that income earned in a particular year will be reported in that year, even though the money may not have been collected in that year. It also means that expenses incurred in a particular year will be reported in that year, even though the bills may not have been paid in that year.

This will probably explain any differences between the City's figures and the Department's figures.

Income

Table 3, which is based on information obtained from DH&H, shows the Department's income (including City subsidies) over the past four years.

The major sources of income are:

1. Payment for services provided to patients. These funds are collected from patients, insurance companies, Medicaid, Medicare, and from the Boston Plan. They have been reduced by free care, allowances, and bad debt.
2. Contracts and grants to provide specific, special services. These funds are received from state and federal

TABLE 3

INCOME
(in millions of dollars)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983^a</u>	<u>1984^b</u>
GROSS REVENUE	\$116.8	\$129.6	\$219.9	\$388.4	\$405.3
Less Contrct'l Allowances	16.1	12.9	56.8	142.7	138.4
Less Provision for Uncollect- ibles, Free Care, etc.	23.4	38.4	77.8	154.2	182.5
NET INCOME From Pat. Serv.	77.4	78.3	85.4	91.3	84.5
ALL OTHER	1.6	2.5	3.8	5.0	7.6
NET REVENUE	79.0	80.8	87.9	96.3 ^c	9.2
CITY SUBSIDY	31.8	34.6	19.1	21.5	11.9
ADDITIONAL CAPITAL FUNDS	4.0	1.0	2.0	2.0 ^d	2.0
TOTAL INCOME	\$114.8	\$116.4	\$109.0	\$119.8	\$106.0

^a Excludes \$13.0 in potential reimbursement under ch. 372.

^b Excludes \$16.0 in potential reimbursement under ch. 372, as well as a \$10.0 payback to Medicare.

^c Excludes possible \$15.0 payback to Medicare.

^d Estimate.

agencies for such purposes as alcohol services, pest control, de-leading programs, etc. These monies are channelled through the Trustees' nonprofit corporation.

3. Miscellaneous other operating revenue. This includes such items as rent, cafeteria receipts, laboratory income for services provided to patients of other institutions, and bank interest.
4. Operating subsidies from the City. These cover the annual cash operating deficit and provide funding to neighborhood health centers and various public health services not adequately funded by other sources.
5. Capital funds from the City.

The income from patient services represents by far the largest component of revenue. In FY 1983, the Department's gross revenue for patient services came to \$388.4 million, enough to fund the Department for three years. However, no hospital collects the full amount of its gross revenue. Gross revenue must be reduced by contractual allowances, free care, and bad debt.

Contractual allowances result from the fact that certain third-party payers reimburse for services on the basis of cost or other formulas rather than on the basis of what the hospital charges. For example, the hospital charges private patients at the rate of \$200 per day, but Medicaid pays no more than cost. If cost is only \$185 per day then there will be a \$15 contractual allowance for each patient day billed to Medicaid. Free care consists of services the Department and the City have agreed to subsidize. Bad debt consists of those bills for which the Department expected to be paid but was not.

Net revenue from services to patients increased significantly in the past two years. This increase is attributable to free care reductions through subsidies to the Boston Plan and to increased billings to third parties from the Department's outpatient facilities.

During the period between 1980 and 1983, Net Service Revenue increased by 2.2% (\$78,991,000 to \$80,756,000). During that same period, Total Patient Services expenses increased by 10.8% (\$106,958,000 to \$118,554,000.) If the Department receives a major part of the free care money available through the ch. 372 pool, the additional \$10 million would result in a Net Service Revenue increase of 14.9%. This would mean that income has increased faster than expense.

Expenses

The main category of expense is Patient Service Expense.

As discussed in Table 4 below, in FY 1983 the total amounts of salaries, professional fees, retirement costs paid, retirement costs accrued, and administrative and general salaries came to at least \$101 million (over 85% of total patient care expenses of \$118.6 million). This has profound implications:

- o The subsidy provided by the City to the Department results in income approximately five times the subsidy. Without the subsidy the system would probably not be able to survive, an economic disaster for the employees and the City as well as for the patients.

- o Although there are assuredly opportunities to cut costs in non-personnel areas, personnel is the major item of expense. Any attempt to balance the budget through cost-cutting in personnel would take place mainly by eliminating jobs. This would result in drastically reduced services.

TABLE 4

PATIENT SERVICE EXPENSES FOR PAST FOUR YEARS

Based on rough estimates from
Department of Health & Hospitals
(dollars in thousands)

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984 est.</u>
Salaries	53,619	55,719	55,168	60,534	62,200
CETA	769	615	53	--	--
Professional Fees	8,464	9,494	9,411	10,711	10,800
Pay as you go Retirement Costs	8,669	9,280	9,453	8,882	9,000
Accrued Retirement Costs	5,489	5,100	5,585	6,325	7,900
Materials and Supplies	8,584	11,116	9,874	9,617	9,400
Provisions for Judgments	1,240	(440)	200	699	700
Administration and General	13,348	14,396	18,262	14,505	13,500
Interest	2,720	2,830	2,416	2,755	2,800
Depreciation	4,056	4,188	4,099	4,823	5,400
TOTAL PATIENT SERVICES EXPENSES	106,958	112,298	114,521	118,554	121,700*

* Based on rough estimates.

Salaries, Wages and Fringe Benefits--These monies pay staff who are mainly involved in providing patient care and services.

Professional Fees--These monies pay for the physical staff, including contracts with B.U. Medical School for about \$4.5 million to provide physicians and contracts with the Trustees to provide temporary nurses for about \$2.6 million.

Pay-As-You-Go Retirement Costs--These monies pay for the current cost of former employees receiving retirement benefits.

Provisions for Accrued Retirement Costs--These monies are budgeted to be set aside for future payment of retirement benefits for present employees. This account is not funded to the Department; instead, the City assumes the responsibility of funding the account at the City level.

Material and Supplies--The amount of money spent on materials and supplies has remained relatively constant over the past few years. Inflation has increased the unit cost of materials and supplies; however, the decreasing patient load has resulted in a need for fewer materials and supplies. In 1983, pharmacy supplies of \$6.0 million and general medical supplies of \$1.4 million comprised most of the \$9.6 million spent. It is not within the scope of this chapter to address purchasing policies, procedures, price effectiveness, inventory levels, etc. However, the purchasing systems are not nearly as sophisticated as the personnel systems and probably require upgrading.

Provision for Accrued Judgment and Claims--This is a relatively minor item.

Administrative and General--These monies pay for the staff who are administrative and general rather than directly involved in patient care and services. Certain of the administrative staff have significant patient involvement, however, such as clinic receptionists.

SUBSIDIES FROM THE CITY

Each year the City provides funds to make up the Department's operating deficit. The subsidy can be described as a subsidy to the Department by which the City makes up the difference between income and expense or as a subsidy to people who cannot afford its services. However it is characterized, neither the institution nor the patients could survive without it.

The deficit which is funded by the City is calculated on the basis of cash expenditures rather than on accrued obligations. Accordingly, Depreciation and Provision for Accrued Retirement Costs are not funded but, instead, accumulated in the Deficit.

Table 4 (based on Table 1) shows the Department's unsubsidized loss, the City's operating subsidy to the Department, and the resulting deficit for the past four years.

TABLE 4

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984 (est.)</u>
Loss	\$38,689	\$45,837	\$39,505	\$50,317	
Operating Transfers	31,840	34,601	19,114	21,500	6,549
Deficit	6,849	11,236	20,391	28,817	

The loss and the deficit in 1983 and 1984 reflect monies set aside as a reserve in case it becomes necessary to repay Medicaid and private insurers, in settlement of claims brought by them, for reasons discussed below. This reserve amounted to \$15.5 million in 1983. If the Department receives favorable decisions, both the loss and the deficit would be reduced by the amount of the reserve. If the Department receives an adverse decision on the Medicaid claim, the loss and the deficit would remain the same, but the Department and the City would be required to repay \$15.5 million. In addition, it might be necessary to repay another \$5 million to private insurers who brought suit over the same issue.

In addition, over the past four years, the City has provided approximately \$8 million in capital funds for projects that could not be financed out of income. Because of the age and condition of the physical plant as well as the ever-changing regulations governing health care facilities, that capital requirements are expected to continue to increase.

Finally, the City pays health insurance premiums for employees of the Department. The City has considered requiring the Department to assume these payments. The Department is concerned that it might be required to do so without being provided the necessary funds, an action that would have the effect of a significant budget cut. This is obviously a matter for negotiation. While it makes sense to identify all items of expense in the City budget that pertain to the Department and to assign those expenses to the Department, the means to fund those expenses should be transferred as well.

SPECIAL ITEMS OF CONCERN

Free Care

When social welfare programs were established in the '60s, the burden of caring for the poor was to have been transferred from the City to the state and federal governments. Many of the patients who had been free care patients became covered by Medicaid, Medicare, and the General Relief medical program. Recently, however, there has been a major effort by both state and federal governments to reduce the number of people receiving the benefits of such coverage. The Department was especially hurt when the state eliminated hospital services from the General Relief program at a time when the federal government was making it more difficult for disabled people to qualify for the federal disability program (SSI-DA). To give an idea of the magnitude of the Department's loss, the final payment received for services provided General Relief recipients was \$7.0 million.

The Department of Health and Hospitals has traditionally been the health care system of last resort, serving people without private resources, insurance coverage, Medicaid, or Medicare. It is therefore expected that DH&H will have a deficit, primarily because of the amount of free care it provides.

Reducing the level of free care provided will not automatically save money. Reducing free care reduces the number of employees required to provide that care, without a corresponding reduction in overhead.

Accordingly, any proposed solution to the problems of the Department through the reduction of free care services must be looked at carefully. Any proposal that

offers a reasonable opportunity to cut costs without reducing services or employees, that offers the opportunity to increase the numbers of paying patients, or that creates coverage for uncovered patients, should be considered enthusiastically.

The cost of free care varies with a number of factors other than service, including:

- o payer mix (the number of free care patients as compared to the number of paying patients);
- o scope of services provided;
- o cost of services provided;
- o quality of the effort to discover whether patients have coverage and to obtain coverage for those who do not;
- o quality of the billing effort;
- o the new reimbursement formula; and
- o the free care policies of other institutions.

These will be explored in depth below.

Payer Mix--The Department must improve its payer mix. Payer mix means the proportion of patients who are covered by insurance, Medicaid, other third parties, and self-pay to those who receive free care. Table 5 (based on DH&H figures) shows the payer mix for the Department in 1983.

As indicated below, 40.4% of the BCH patients are self-payers, most of whom receive free care. This is a bad payer mix. There are too many free care patients and not enough paying patients. If the number of free care patients

TABLE 5

PAYER MIX 1983
(Based on \$ Revenues)

	BOSTON CITY				LONG ISLAND		MATTAPAN	
	<u>In-Patient</u>	<u>Out-Patient</u>	<u>Ambulance</u>	<u>Weighted Avg.</u>	<u>In-Patient</u>		<u>In-Patient</u>	
Self-Pay	32.9%	55.9%	73.7%	40.4%	21.3%		32.9%	
Medicaid	26.6	20.4	16.1	24.4	77.6		64	
Blue Cross	9.2	5.8	-	8	.8		1.6	
Commercial Insurance	2.1	.5	-	1.6				
Medicare	20.5	8.1	10.2	16.7	.3		1.5	
Industrial Accident	.7	.2		.5				
Boston Health Plan	7.0	7.1		6.9				
Other	<u>1.0</u>	<u>2.0</u>		<u>1.3</u>				
TOTAL	100%	100%	100%	100%	100%		100%	

were to remain the same while the number of paying patients increased significantly, the free care burden would become more manageable, mainly because the cost of providing services to the additional patients would be less.

The Department's major problem has been its inability to attract patients who are covered by Blue Cross/Blue Shield or other kinds of insurance. There are several reasons for this, including an antiquated and unattractive physical plant; poor nonmedical services (TV sets and telephones, linen supplies and hot water, unattractive rooms, no air conditioning); security problems; effective competition from other hospitals; inadequate parking; its reputation as a "poor people's health facility;" and frequent bad publicity.

The primary effort to increase the number of paying patients has been through the Boston Plan. Under this Plan the Department offers prepaid comprehensive services to City employees and other groups. Unfortunately, the funding source that subsidizes free care within the Plan is expected to dry up in 1984. The Department believes that there are sufficient funds to continue the free care component of the Boston Plan through 1985, but perhaps not beyond.

As the elderly are more likely to be covered by Medicare and Medicaid, an increase in elderly services and elderly patients would improve the patient mix.

Scope of Free Care--The scope of the services provided affects the cost of free care in two ways. First, the greater the range of services provided to free care patients, the greater the free care deficit. In other words, if the Department did not do oral surgery, it would not have to subsidize free care for patients requiring oral surgery. The patients would be forced to go elsewhere or do without.

Second, the cost of free care will be increased by providing services that will not be subsidized, including extraordinary social services; translation; assistance in obtaining public support; housing assistance; unusual legal and protective services; and cultural differences.

Third, patients with third-party coverage who no longer require hospitalization for medical purpose but who cannot be released for other reasons require "administratively necessary days," for which the hospital does not get fully paid.

Excessive Facility Costs--A major problem for the Department is that the cost of free care is significantly increased by its real estate costs. It operates in older facilities that are no longer used or are inefficient, and in newer facilities which are significantly under-utilized.

Obtaining Third-Party Payment--In the past there has been some concern that the Department lacks both the systems and the staff to effectively ascertain whether its patients have insurance coverage. The inpatient staff has a reasonable opportunity to obtain relevant billing information. As a result, the inpatient self-pay percentages are low. However, ambulance and inpatient services have a higher percentage of self-pay patients. This is because they have less opportunity to obtain this information. And the ambulance system is particularly at a disadvantage because it takes patients to hospitals that are less efficient than BCH in obtaining billing information.

The Department is currently installing an on-line computerized registration and encounter system that will improve the process of obtaining and using billing information.

At one time, the Massachusetts Department of Public Welfare had an office at BCH to make it easier for the Hospital to determine whether or not a patient had coverage and to make it easier to obtain coverage for people who were potentially eligible but had not applied. This office no longer exists. Many patients are street people who are, for practical purposes, unbillable.

It takes skill, energy, and tenacity as well to get Medicaid to pay 99% of submitted bills rather than 85%. The Department has employed a collection agency to recover from its self-pay patients. However, it was unable to recover a significant amount of money in that way.

Free Care Policies at Other Hospitals -- Notwithstanding the passage of the Hill-Burton Act, a federal bill requiring hospitals that receive federal construction funds dispense a certain amount of free care, several Boston hospitals appear to be quietly referring their free care patients to BCH. Whether the numbers of inappropriate hospital referrals to BCH are significant is questionable. Certainly, the poor living in the neighborhoods that surround BCH should have access to its services. Boston has a number of renowned medical institutions to which most neighborhoods have access. However, it is the perception of BCH staff that the poor of other city neighborhoods find their way to BCH with predictable regularity. The Department of Health and Hospitals should investigate the matter.

Chapter 372 (the Hospital Cost Containment Statute)

Various aspects of the previous reimbursement system for acute care hospitals contributed to the high cost of care, including: automatic cost increases; additional patient days; ancillary testing; administrative charges to absorb the cost of filing multiple cost reports, duplicate audits, and annual regulatory changes; the frequent shifting between government, private, and commercial payers; and forced increases in health insurance premiums in excess of the rate of inflation.

G.L. ch. 372 was enacted in August 1982 for the purpose of containing hospital costs. It sets forth the method by which hospital charges are set and third-party payments are made, and significantly changes the existing reimbursement system for acute care hospitals in Massachusetts. Hospitals will now be reimbursed for certain services at a fixed rate. If they can provide those same services at less cost, they are allowed to keep the "surplus" they generate by doing so.

The passage of ch. 372 will impact on BCH revenues in several ways.

Inflation Allowances and Productivity--The maximum allowable cost (MAC) formula adjusts reimbursement levels each year by an inflation allowance, based on the level of actual inflation in the hospital industry. The actual inflation rate is currently low (estimated at 5.1% in 1984), and will result in lower reimbursement than otherwise. The effect will be offset to some extent by adjustments for hospital productivity. However, BCH has little flexibility in achieving these gains in productivity; it has a decentralized and antiquated physical plant; a staff

that consists mainly of civil service employees and union members; and wage levels set by a collective bargaining process over which it has no control.

Volume Corridors and Incentives--BCH must choose a volume strategy that matches BCH realities with ch. 372 incentives. For example, many inpatients require social services, which are considered to be ancillary services. However, under ch. 372, acute care facilities that increase their level of ancillary services will be penalized, since the hospital's reimbursement level is relatively fixed at 4% adjustment to gross. Conversely, facilities will have an incentive to reduce ancillary services below the level of the adjustment, since they retain the surplus they generate by doing so.

Free Care--Before ch. 372 became law, all free care and bad debt was reflected as a single loss in the Department's budget. Hospitals were not directly reimbursed for that loss, except to the extent it was reflected in their rates. Ch. 372 allows acute care hospitals that provide a significant amount of free care, such as BCH, to be directly reimbursed for a percentage of that care by Medicare and Medicaid. This change required a waiver from existing Medicare and Medicaid regulation: however, the waiver expires shortly and must be extended so that BCH obtains the benefit of this change in the future.

Medicaid Payment Ratio--BCH is currently the only hospital with a Medicaid payment ratio that is greater than 1. (Medicaid payment ratio is the ratio of the reimbursement payment to hospital charges.) In fact, BCH's ratio is 1.5%, compared to a state-wide ratio of only 0.7%. Under current regulations this ratio is locked in (only minor year-to-year changes will affect it during the life of

ch. 372. However, there is always a possibility that corrective legislation will be filed which would effectively reduce BCH's premium: this possibility should be carefully monitored.

Section 51--Section 51 of ch. 372 sets forth the mechanism by which a state-wide uniform MAC will be set, effective October 1, 1984. Under MAC each payer reimburses a hospital based on the percentage its billings represent of the hospital's total billings. This will significantly reduce BCH's revenues, because it reduces the revenue from commercial insurers, a significant source of revenue for BCH. These insurers previously reimbursed the hospital for 100% of its charges. They will now reimburse the hospital based on the percentage their billings represent of BCH's total billings, significantly less than 100%.

Medicaid and Insurance Payback Issue

When Proposition 2-1/2 was enacted, the Department was faced with the prospect of a decrease in its subsidy from the City. At the time, Medicaid's formula for reimbursement allowed payment of 100% of outpatient charges, whereas inpatient service payments were limited to cost. Commercial insurers and self-pay patients were expected to pay 100% of outpatient charges as well.

To benefit from this policy, the Department requested permission to raise its outpatient charges from \$90 to \$300, an increase of 233%! The dramatically-inflated charge was seen as a controversial, but a necessary step to increase earned income. The charge was accepted by Medicaid and approved by the Rate Setting Commission.

In August 1982, the State enacted ch. 372, which requires Medicaid and Medicare to contribute to the support of free care. As a result, a substantial amount of the free care deficit can now be underwritten by Medicaid.

In view of this change, State Medicaid officials now question whether the \$300 outpatient rate was proper. An investigation is presently underway that may result in an order that the Department pay back the inflated outpatient charges. The Department would have to return \$8.2 million earned in FY 1982 and \$9.8 million earned in FY 1983, a total of \$18.0 million. The Department might also have to reimburse private insurers, who have sued it for \$5.0 million under the same theory. As a precautionary measure, the Department and its accountants have set up a reserve of \$15.0 million on its 1983 statement. However, the reserve has not been funded.

The Effect of the City's Budgeting Process on the DH&H Deficit

The way in which the City budgets the expenses of the Department may increase the deficit, and therefore its effective cost to the City. The system it uses is a basic governmental line item budgeting system which works reasonably well for governmental agencies of which they are a part. DH&H, however, is not a typical governmental agency in that it earns most of its money independently. Therefore, its budgeting system should be one which provides incentives to earn more money from its services. It is often suggested that the City create a private non-profit corporation, or quasi-governmental independent authority. In fact, the same result could be achieved administratively.

First, the City should have an agreed-upon amount of free care subsidy at approximately the present level, rather than a commitment to the Department's entire budget. Second, the City's line item budget control over the Department should be eliminated so that the Department can spend its money in areas which produce the best financial as well as health care return. Third, the Department should be given credit for the money it earns, so that it will have an incentive to earn more. Fourth, the Department's leadership should be held accountable for meeting or exceeding its own goals. Fifth, the subsidy should be renegotiated to reflect any increase in the moneys earned by the Department. These arrangements would result in reduced costs to the City.

Unfunded Items

The Department's financial statements are based on the accrual system under which income and expenses are recognized when they are earned or incurred. This is usual and customary. The City, however, recognizes only cash coming in and cash going out. Accordingly, the City's subsidy enables the Department to break even on a cash basis even though the Department shows an annual and cumulative loss because of a number of unfunded accrued expenses. These expenses create an accumulated deficit of \$81.5 million by the end of FY83.

Provision for Accrued Retirement Costs--Each year the Department shows as an expense the amount of pension liability that has been earned by employees during that year. Unlike "pay-as-you-go" pension payments, accrued retirement costs will not be paid out until some time in the future, so that the money set aside each year is allowed to

accumulate as a reserve fund. The City has not allowed the Department to do this, however. This means that at some time in the future when pensions come due they will have to be funded out of current funds, rather than the intended reserves. In FY 83, the amount of unfunded pension liability was \$9.5 million.

Depreciation--Each year the Department shows approximately \$4 million in depreciation expenses on its statements. The purpose of depreciation is to enable funds to be set aside for replacing used up buildings and equipment. In fact, many of the building crises at the Department result from the failure to set aside depreciation funds on an annual basis so the department can have a sensible program for maintaining and upgrading its real estate. However, the City does not recognize depreciation as an expense to be funded.

Expected Retroactive Collective Bargaining
Increases--This item will be covered in another chapter of this Report. However, it should at least be noted that there is no reserve set aside to cover retroactive collective bargaining increases to Department employees.

The Boston Health Plan (BHP)

The Boston Health Plan (BHP) is a managed care system organized similarly to an Independent Practice Association. BHP was created in 1981 through a three-year demonstration grant from the Health Care Financing Agency of the Department of Health and Human Services. The BHP is in its final months of the grant, which expires on January 15,

1984. An extension application which seeks funding for administrative support for an additional three to five years is being prepared.

Three categories of subscribers are served by BHP: Medicaid recipients, City of Boston employees and near-poor residents of Boston. Presently the Plan has 11,204 subscribers, with City employees comprising 1,212, Medicaid 733, and near-poor residents 8,652.

The grant was designed to achieve two primary objectives: 1) gaining federal support for health care to the near poor, and 2) developing a capitated managed care system with the Department providers managing cases and assuming financial risk.

The Plan receives a fixed annual payment for each enrolled person. If the Plan can control service costs so that total costs are less than total premiums, the Plan can generate a surplus. If total costs exceed total premiums, the Plan suffers a loss.

The Boston Plan has been heavily subsidized by the City. If the 11,204 subscribers were paying premiums at the same rate as the Harvard Community Health Plan (about \$15,000 per year), total premium income would be \$16.8 million. Actual premiums came to less than half that amount. Moreover, because of the nature of health needs of the subscribers to the Boston Plan as opposed to the Harvard Plan, the Boston Plan rate should, realistically, be higher. Finally, the number of City employees enrolled in the Boston Plan is 1,212, which represents less than 6% of the City's 21,000 employees. This is true even though the City pays 100% of employee premiums for the Plan as opposed to 75% of BC/BS premiums. Obviously, there is a large

amount of free care going on through the Boston Plan. However, much of this care would have been free care under any circumstances.

The Boston Plan is clearly not a solution to the Department's problems. Unless Hospital facilities are upgraded and the payer mix improved, the Boston Plan has no future.

Real Estate and Capital Needs

DH&H owns over a million and a half square feet of space. Much of this space is presently unused, as can be seen from the following table:

TABLE 6

VACANT PLANT
6/30/83

	<u>Total Footage</u>	<u>Vacant Footage</u>	<u>% Vacant</u>	<u>Remarks</u>
BCH	913,460	45,509		BCH now on 9/30/83 basis
83 Adj.				
Richards	(6,678)	(3,570)		Demolished
Thorndike		4,485		Basement vacant
Surgical		39,582		Building vacant
BCD		7,776		"
Sears		32,755		"
Peabody		(7,167)		Currently in use
	<hr/>	<hr/>	<hr/>	
BCH Total	906,782	119,370	13.2%	
Mattapan	251,381	87,144	34.7%	
Long Island	<u>381,506</u>	<u>59,290</u>	<u>15.5%</u>	
Grand Total	1,539,669	265,804	17.3%	

These figures, furnished by sources at DH&H, do not include the South Block, which is managed by the Trustees of Health and Hospitals. Note that 26,800 sq. ft. of Dowling is in renovation.

There are major problems with the Department's physical plant with significant impact on its financial position.

1. The costs of the overall operation include substantial costs attributable to unused space;
2. Much of the space, especially the new Ambulatory Care Center and the new South Block building, are under-utilized;
3. The older buildings are inefficient, and therefore add considerably to the cost of operations; and
4. The older buildings are unattractive, which makes it extremely difficult to attract middle-class, paying patients.

On December 9, 1983, the Department prepared a list of capital improvement needs totalling approximately \$12.0 million. Major items include: a new boiler plant (\$3.5 million), life safety improvements (\$2.0 million); Dowling Building (\$2.0 million); and porch removal (MD and Ob-Gyn Buildings, \$1.0 million). While there is an obvious need for these projects, renovations of this scope will not have a significant effect on the overall condition of the physical plant.

A plan must be developed for the real estate that will provide the Department with facilities that are competitive with those of other hospitals. Otherwise, the De-

partment will continue to lose paying patients to other hospitals until the burden on the City becomes so great that the Department's facilities will be forced to close.

This plan could be combined with a plan to develop a vertically integrated system of care for the elderly. It could and should include plans to sell some of the real estate to provide funds for a new hospital (which should combine all three hospitals at one location). Any sale of property should require tax payments or payments in lieu of taxes. The Department should consider making payments in lieu of taxes.

Table 7 charts details of the property, plant, and equipment carried on the balance sheet.

These values are so-called "book values." They do not indicate either the market value or the replacement value of the Department's physical assets. If there is any intention to revitalize the Department's physical plant and to finance some portion of the revitalization by the development or sale of some of the physical assets, it would be important to know the market and/or developmental value of the Department's physical plant.

The Relationship With Boston University Medical School

BCH, as a teaching hospital, has a close involvement with Boston University Medical School and its Medical Center. Most of the leadership at the Department is provided by physicians whose services are obtained under contract with the School. On-going care is provided by residents and interns who have close professional ties to both the School and the Department.

TABLE 7

CITY OF BOSTON
NOTES TO COMBINED FINANCIAL STATEMENTS

Health and Hospital's Property, Plant
and Equipment and Accumulated Depreciation

	<u>Hospital Facilities</u>	<u>South Block Complex (thousands)</u>	<u>Total</u>
<u>1983:</u>			
Land and improvements	3,784	132	3,916
Buildings and improvements	101,001	18,238	119,239
Equipment	<u>19,727</u>	<u>495</u>	<u>20,222</u>
	124,512	18,865	143,377
Less accumulated depreciation	<u>51,506</u>	<u>5,820</u>	<u>57,326</u>
	<u>73,006</u>	<u>13,045</u>	<u>86,051</u>
<u>1982:</u>			
Land and improvements	3,777	132	3,909
Buildings and improvements	99,551	18,569	118,120
Equipment	<u>12,651</u>	<u>495</u>	<u>13,146</u>
	<u>115,979</u>	<u>19,196</u>	<u>135,175</u>
Less accumulated depreciation	<u>47,843</u>	<u>5,404</u>	<u>53,247</u>
	<u>\$ 68,136</u>	<u>\$ 13,792</u>	<u>\$ 81,928</u>

The South Block Complex consists of residential apartments, parking for resident and hospital use and facilities that house the Boston City Hospital School of Practical Nursing.

Health and Hospitals' Leases:

Included in plant and equipment is leased property as follows:

	in thousands)
Buildings and improvements	\$ 358
Equipment	<u>7,667</u>
	<u>8,025</u>
Less accumulated depreciation	<u>831</u>
Total	<u>\$ 7,194</u>

The relationship between School and Department is a complex one. Many aspects of the relationship are financial. However, there are also deep programmatic and organizational issues which are beyond the scope of this chapter. There is no question that the School and the Department need each other. The question is how to improve the relationship for the benefit of both parties.

The hospital's financial relationship with the School is shaped by several contracts through which the Department purchases the services of physicians. The most senior physicians have the following roles:

1. Chairman of the Department. In this role, the physician is an employee of the Medical School and is responsible for teaching and other academic activities of the Department.
2. Chief of the Service. In this role, the physician is an employee of the Hospital and is responsible for the provision of services.
3. Provider of Service. In this role, the physician provides services and may, under certain conditions, bill for those services privately or as the member of a group, even though he is being paid a salary for being Chairman and Chief.
4. Researcher. Many of the physicians have research grants and activities in addition to their other roles.

The Department feels that the School is vital to the quality of care it provides. However, in the opinion of the Department, the School does not provide enough leadership and support, both within and without the Department. Consequently, its efforts to improve payer mix suffer. Also, some Department representatives believe that the contracts may be somewhat "rich" in favor of the School. The

School has the strongest commitment to the Department because City Hospital is the major teaching facility of the School. The School/Department relationship needs some friendly investigation and resultant collaboration in order to meet the concerns and needs of both parties.

Organizational and Staff Issues

Hospitals are difficult enough to operate under the best of circumstances. When they are also part of governmental structures, the difficulties increase significantly. A major challenge for the new Administration will be to create conditions under which people will be able to work at the upper levels of their skills and energies. In the past, the staff has not been as productive as it could have been for a number of reasons:

1. The hospitals and their sub-units are physically isolated from each other, making communication difficult.
2. The physical conditions under which people work are not pleasant.
3. Some staff members are civil service employees, while others belong to unions.
4. The staff is organized by discipline rather than by program. The organizational structure must be strengthened to facilitate a unified effort between physicians, nurses, general service staff, and administration.
5. There are significant weaknesses in the managerial chain of command. Middle management in particular needs to be strengthened so it can provide the proper communication link between top manager and line employees and the leadership that will enable line employees to be more productive.

6. There are no traditions of organizational excellence.
7. Unnecessary and unqualified employees should be let go. Commissioner Pollock has removed 100 employees since he took office, through a committee which reviews individual performances and vacancies.

However, unless the strength and philosophies of this Administration and of the Department's leadership are reflected throughout the organization, the quality of operations and the cost will continue to reflect the frustration of good people who are unable to work as effectively as they would otherwise.

Auditing

City Auditor

INTRODUCTION

Municipal managers must rely on different sources of information to make daily decisions. Much of this information is financial in nature and it must be timely and accurate. Managers can be confident of decisions if they are confident of the accuracy of the information on which they are based. Auditing is the process by which its accuracy is determined.

Audits may be classified as internal or independent depending upon whether they are performed by internal or external auditors. Internal auditors are those employed by the City and reporting to the Mayor. External auditors are those employed by other governmental agencies, such as state or federal agencies, or independent public accountants who are hired by the City.

Internal auditors are a necessary part of any management team and should be used to review management operations. They function as a managerial tool with which to measure the effectiveness of management controls.

External audits do not obviate the need for internal audits. The two functions, while separate, complement each other. Currently, the City has an external audit function but not an internal audit function. The need for the latter will be discussed later in this chapter.

Audits may take many forms, but all are basically methodical examinations of how resources are utilized. They also test management's accounting systems to make sure there are internal controls over resources and that those controls are functioning properly.

Internal controls are all methods, procedures and controls adopted to ensure the safeguarding of resources, the accuracy of accounting records, the adherence to management's programs and policies and the efficiency of operations in compliance with the law. However, the inherent limitations of any system of internal controls must be recognized. Errors, mistakes in judgement, misunderstandings, and carelessness can all affect the controls. In addition, controls rely heavily on the segregation of duties. They can therefore be circumvented by collusion. However, these weaknesses can be minimized by strengthening the controls themselves and by periodically reviewing their operation. It should be noted that the objective of internal controls is to provide reasonable, not absolute, assurance. The cost of a system of internal controls should not exceed its benefit.

The purpose of this chapter is to provide an overview of the audit function in the City and to discuss the related issues that will face the new Administration. The chapter is divided into three sections. The first section is an overview of the annual audits conducted by independent public accountants. The second section focuses on the audits conducted by various federal agencies which distribute money to the City. Finally, an internal audit function within Boston is discussed.

ANNUAL INDEPENDENT PUBLIC ACCOUNTANT AUDITS

During the 1970's, municipal financial markets, already weakened by long-standing inflationary pressures and a recession, were hard-hit by the financial difficulties of the City of New York. New York's crisis reduced the ability

of cities such as Boston to borrow at reasonable rates. In addition, the rating agencies began to demand more reliable information on the financial well-being of the municipalities seeking ratings. For the first time in its history, Boston was forced to engage an independent public accounting firm to perform an audit of its financial statement.

The FY 1978 audit was undertaken by the firm of Coopers & Lybrand. An immediate audit problem was encountered since the City kept its accounting records on a statutory basis (STAT) while audited financial statements are required to comply with Generally Accepted Accounting Principles (GAAP). The two methods of accounting produce significantly different results, as illustrated below in Table 1.

TABLE 1
REVENUES OVER EXPENDITURES
(in thousands)

<u>Fiscal Year</u>	<u>Budgetary Basis (Statutory)</u>	<u>Financial Statements (GAAP)</u>	<u>Differences</u>
1979	\$ 34,503	\$ 11,399	\$ 23,104
1980	(29,532)	(50,499)	20,867
1981	(31,397)	(19,644)	(9,114)
1982	(42,199)	37,308	(79,427)
1983	(37,023)	5,242	(42,265)

Most of the differences reflect timing differences in that GAAP and STAT financial statements differ as to when a particular transaction is recorded on the books. This difference is not usually permanent and will eventually cancel out.

Statutory accounting, a relatively clear-cut method, is described in detail in state and city ordinances. It is used to calculate both the budget and the tax rate. Generally Accepted Accounting Principles (GAAP) are formulated and published by the National Council on Governmental Accounting (NCGA). NCGA has gained widespread acceptance as the primary authority on the application of GAAP to state and local governments. GAAP, however, is less clear-cut than STAT, as it changes from time-to-time and is subject to interpretation.

The following reconciliation, from the Coopers & Lybrand audit of fiscal years 1983 and 1982, summarizes the impact of GAAP versus STAT accounting differences on General Fund operations.

	<u>1983</u> (in thousands)	<u>1982</u>
Deficiency of revenues & available funds over expenditures & encumbrances on budgetary basis (STAT)	\$(37,023)	\$(42,119)
Tax title collections not reported as revenue on a budgetary basis	17,925	15,000
Change in provisions for estimated abatements & losses on collection of real and personal property taxes, tax titles and tax possessions	10,015	(12,557)
Change in state aid for school construction from Debt Service Funds	1,777	2,540
Change in state reimbursement of teachers' retirement costs from recognition on modified accrual basis	631	1,006
Funding Loan Act Proceeds	87,124	
Amounts reserved for debt service	(36,966)	
Amounts reserved for appropriation for Capital Projects	(6,000)	
Other available funds	(19,900)	(5,260)
Additional provision for accrued judgments and claims	(72,963)	(24,815)
Elimination of encumbrances, net	5,373	6,993
Prior year appropriation deficit raised	6,515	2,218
Other	<u>6,848</u>	<u>9,852</u>
Excess of revenues over expenditures & other financing sources (uses) on the basis of generally accepted accounting principles	\$ <u>5,242</u>	\$ <u>37,308</u>

Generally Accepted Accounting Principles that apply to municipalities are different from those that apply to business entities. Governments and businesses have different organizational objectives, and operate in different

economic, legal, political and social environments. These differences are reflected in the accounting principles which apply to each.

The different accounting systems reflect basic differences between governmental and business entities, most notably:

1. The political process and its influence on financial transactions and reporting;
2. The absence of a profit motive which can bring uniformity to management;
3. The role of the budget and related inefficiencies; and
4. The difficulty of operating in a financial "fish bowl".

Yet, government and business accounting practices are similar in many ways. They are both concerned with controlling and reporting on financial position, results of operations, and changes in financial position. They are concerned with safeguarding assets and with providing information for internal and external decisions.

Both the similarities and differences must be taken into account in determining Generally Accepted Accounting Principles in a government context. Credit markets require information of governments, similar to that required of businesses, in order to make credit decisions. Yet the law imposes additional requirements on government spending, such as the appropriations and budget processes. Therefore, governmental GAAP financial reporting must provide information required both by the investment community and by those who oversee the governmental spending process. This will involve broader reporting requirements than for business GAAP financial reporting.

This goal is accomplished in part by the governmental practice of fund accounting. Individual government resources are accounted for in separate funds which are self-balancing. In addition, there is an emphasis on "financial flow" data, which is information on the source and use of "available spendable resources" for a certain period of time. NCGA has established Generally Accepted Accounting Principles based on such governmental needs.

The basic funds and sub-accounts which are used by the City are defined by Coopers & Lybrand as follows:

Governmental Fund Types

General Fund--transactions related to revenues and expenditures for delivery of those services traditionally provided by a government, which are not provided for in any other fund are accounted for in this fund.

Special Revenue Fund--transactions related to revenues and expenditures under certain federal and state grants and from other sources upon which restrictions are imposed are accounted for in this fund.

Debt Service Fund--transactions related to resources obtained and used for the payment of debt service on long-term general obligation debts are accounted for in this fund.

Capital Projects Fund--transactions related to resources obtained and used for the acquisition, construction and improvement of capital facilities are accounted for in this fund.

Boston Redevelopment Authority Fund

Transactions related to revenues and expenditures, resources obtained and used for the development of projects overseen by the BRA or for transactions not specifically restricted to development projects are accounted for in this fund.

Proprietary Fund Types

Health and Hospitals' Enterprise Fund--- transactions related to the operation of Boston City, Mattapan and Long Island Hospitals and the Community Health Services Division are accounted for in this fund.

Fiduciary Fund Types

Retirement Systems--transactions related to assets, liabilities and fund equity of the city-administered retirement systems (State-Boston and Boston Retirement Systems) are reflected in this fund.

Trust Funds--transactions related to resources obtained and held by the City in a fiduciary capacity are recorded in these funds.

Agency Funds--these funds are used to account for assets held by the City as custodial trustee and do not involve measurement of results of operation.

Account Groups

General Long-Term Obligations--all liabilities arising from governmental final operations, with the exception of the BRA, not payable from current expendable resources are accounted for in this fund. These liabilities consist of accrued sick and vacation, judgements and claims, retirement costs and unmatured general long-term obligations and installment notes payable.

The modified accrual basis of accounting is used for the governmental fund types and expendable trust funds, while the full accrual method of accounting is used for proprietary fund types, retirement systems, non-expendable trust funds and agency funds.

The annual Coopers & Lybrand audit is undertaken for the purpose of obtaining an opinion from the auditors that the financial statements of these funds present fairly the financial position of the City and the results of operations in conformity with generally accepted accounting principles applied on a consistent basis.

Certain issues, some of which are beyond the City's control, have prompted the auditors to qualify their opinion over the past six years. The qualification has a material effect on the financial position of the City and hence must be disclosed for any financial statement to which the auditors' opinion applies.

The audit for FY 1983 has qualifications in the following areas:

Entity Qualification--During 1983, the City adopted NCGA Statement #3 entitled, "Defining the Governmental Entity". This statement defines the oversight entity as one which has responsibility for overseeing other component units and it is for this "entity" that financial information is required. The City's 1983 Financial Statements, however, did not include a number of entities with respect to which it has such responsibility, such as the Boston Water and Sewer Commission, the Boston Housing Authority, the Economic Development and Industrial Commission, the Boston Industrial Development Financing Authority, the Boston Foundation, Inc., and the Trustees of Health and Hospitals of the City of Boston, Inc., because this information was not available. In this respect, the Financial Statements do not conform to GAAP.

Presentation Qualifications--The City does not maintain records of fixed assets and, therefore, does not have a Statement of General Fixed Assets as required by GAAP.

In addition, the City does not report certain trust funds as they end on different years.

Statement Presentation--Some of the grant programs accounted for in Special Revenue Funds and the BRA have different fiscal periods. Budgetary basis statements of Revenues, Expenditures and Encumbrances are therefore not presented as required by GAAP.

Overrecorded Liability--The City recorded a liability for overpayments of \$15.5 million received by Health and Hospitals from Medicaid. The letter from corporate counsel indicated there was a question as to the certainty of this liability. The auditors' have taken the position

that GAAP does not require uncertain liabilities to be accounted for in the financial statements; the City's position is consistent with conservative accounting practice.

Unrecorded Income--Boston City Hospital is due reimbursement for a portion of free care provided to patients. This amount is difficult to measure and has, therefore, not been recorded. The auditors' qualification relative to this item is unnecessary since it was disclosed in the footnotes and is consistent with conservative accounting practice.

Unknown Liability--There are many pending real estate tax abatement cases as a result of Tregor v. Board of Assessors. The Auditors were not able to satisfy themselves that the \$123.0 million liability recorded in the Financial Statements was reasonable.

The auditors' opinion states that the otherwise fair presentation of the City's financial position may be subject to adjustments based on these qualifications. This may lead a reader to put less faith in the Statements than if they had not been qualified. The City should adopt a plan to eliminate those qualifications over which it has control and to at least reduce the impact of those it does not control.

A review of the Financial Statements demonstrates the improved condition of Boston's finances under GAAP, despite years of deficits under STAT accounting. The measure of the City's fiscal health can be best illustrated by tracking the improvement of the Fund Equity over the past six years as follows:

<u>Fiscal</u> <u>Year</u>	<u>General Fund</u> <u>Equity (Deficit)</u>
1978	\$(27,418)
1979	(13,732)
1980	(59,902)
1981	(38,039)
1982	(731)
1983	4,511

Governmental Fund transactions are accounted for on a spending, or financial flow measurement focus. This means that only assets that will be available, or liabilities that will be payable in the next period, are included in the balance sheet. Therefore, this positive fund balance in the General Fund is considered a measurement of available spendable resources.

With the exception of the Capital Projects Fund, which has a deficit due to its having borrowed from other funds, all of the City's funds show a positive balance as of June 30, 1983.

However, in evaluating the fiscal health of the City, one must take into account the future problems that face Boston, such as its growing pension liability, its outstanding property tax abatement liability, and the revenue constraints of Proposition 2-1/2. While the City has made progress in improving its fiscal position, fundamental changes are required if improvement is to continue.

In addition to the Financial Statements and the auditor's opinion, the annual audit produces a document called a management letter. The management letter is a detailed commentary on City management and its internal controls as observed by the auditors during the audit process. Typically, the letter illustrates areas of strength or weakness, outlines their implications, and recommends solutions.

The first Report on Internal Accounting Controls and Other Matters, issued by Coopers & Lybrand on August 3, 1979 and relating to FY 1978, detailed over 375 specific observations and recommendations for improvements in ten areas. While the City attempted to implement many of the recommendations, others remain to be addressed. Each year, additional recommendations are made as each successive year's audit is completed. The City has hired a CPA firm as a consultant to code and classify the recommendations. However, this project has been ongoing for almost eighteen months and has yet to be completed. The City must implement these recommendations immediately or the current method will be outdated by the time it is in place.

In August, 1983, the City Auditor issued a Request for Proposals for a firm to provide audit services for the City in FY 1984. Most major public accounting firms in the City submitted proposals. After an extensive review of the proposals, the Auditor's office selected the firm of Peat, Marwick, Mitchell and Co. as the new internal auditors for the City.

RECOMMENDATIONS -- ANNUAL INDEPENDENT PUBLIC ACCOUNT AUDIT

1. Auditor's Qualifications. The Administration should undertake an effort to reduce, to the extent possible, the qualifications in the auditor's opinion.
2. STAT vs. GAAP. The Administration should make every effort to reduce the differences in STAT vs. GAAP accounting, with the ultimate goal of being able to budget and account on a GAAP basis. Some of these changes will require amendments to both state statutes and City ordinances.

FEDERAL GRANT AUDITS

Federal agencies typically attach strings to the monies they provide to City departments. Different programs usually involve different accounting, reporting, auditing and other requirements which must be met as a condition of accepting the funds. Audits initiated to test the extent of a government's compliance with these requirements are called program compliance audits. In addition, some federal programs require performance audits which cover economy and efficiency audits as well.

Economy and efficiency audits are used by the federal government to determine if the agency is utilizing its resources economically and to identify the causes of any inefficiencies in certain of its practices, including administrative practices and organizational structure. The audits pave the way for improvements in the use of grant dollars distributed by the agencies.

Program effectiveness audits or program result audits are different in that their objective is to determine whether the desired benefits of a program are being attained. A review is made to determine whether the program achieves its goals in a cost-effective manner.

Along with the proliferation of federal agencies distributing money to the City are program compliance requirements which are increasingly contradictory. In an effort to reduce the resulting confusion, the federal Office of Management and Budget has instituted the single audit concept through Circular A102, Attachment P. This concept will combine financial and compliance audits with program

compliance audits so that an agency is only audited once for each particular grant. The single audit is performed by an independent public accountant in compliance with Federal guidelines.

The City is presently implementing Attachment P, but there are audit issues outstanding from prior audits by federal agencies. Outstanding audit issues relating to the Community Development Block Grant Program (CDBG) and the Comprehensive Employment and Training Assistance program (CETA), which are both administered by the Neighborhood Development and Employment Agency (NDEA), are summarized below.

COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS (CDBG)

The CDBG program is administered by the Neighborhood Development and Employment Agency (NDEA) while the money to fund it comes through the Department of Housing and Urban Development (HUD). Grants for the past four years were:

<u>Program Year</u>	<u>Grant Period</u>	<u>Grant Number</u>	<u>Amount</u>
5	7/1/79-6/30/80	B-79-MG-25-0002	\$24,936,000
6	7/1/80-6/30/81	B-80-MC-25-0002	\$25,115,000
7	7/1/81-6/30/82	B-81-MC-25-0002	\$25,768,000
8	7/1/82-6/30/83	B-83-MC-25-0002	\$23,285,000*

* This amount was reduced by \$1.2 million for net disallowed costs and reduced conditionally by \$3.9 million for questioned costs, netting the city \$18.1 million for Program Year 8.

On December 3, 1982 the Regional Inspector General for Audit (RIGA) of HUD issued a report covering program years 5, 6, and 7. The scope of the audit was limited to an

evaluation of the Grantee's (NDEA) administrative and payroll costs and contracting procedures. The purpose was to determine whether the NDEA complied with pertinent laws and regulations, carried out the program as it was described in the application, whether the charged costs were reasonable and eligible, and whether the program was administered in an economical, efficient and effective manner.

The Inspector General found that NDEA has not administered the CDBG program effectively and cited various examples. As a result, costs of \$1,754,276 were disallowed and costs of \$3,979,224 were questioned. Disallowed costs are those which are clearly not allowable by statute, regulation or contract, while questioned costs are those which are not clearly eligible or ineligible but which warrant contest by the Inspector General for any one of a number of reasons, such as lack of sufficient documentation. Disallowed costs must be repaid to the grantor agency (immediately or over time) either in cash or by identifying other funds expended on qualified items by the grantee which could be substituted for those disallowed. This is subject to negotiation with the appropriate federal agency. Questioned costs, on the other hand, are subject to further discussion and negotiation before a determination can be made as to whether they will be treated as allowed or disallowed costs.

Disallowed and questioned costs in the December 3, 1982 audit, including relevant findings, are:

- o that the program's administration and control mechanisms were inadequate,
- o that CDBG Funds were expended on nonCDBG activities, resulting in disallowed costs of \$1,750,201 and questioned costs of \$206,933,

- o that inadequate grantee performance on housing programs resulted in questioned costs of \$3,225,047,
- o that contracting procedures for professional services were inadequate, resulting in questioned costs of \$240,720,
- o that monitoring of subgrantees was ineffective,
- o that a failure to implement monitoring consultants' recommendations resulted in questioned costs of \$43,494,
- o that improper accounting for reimbursement for boarding and demolition costs resulted in questioned costs of \$180,000,
- o that questionable payroll and budgeting practices may have cost \$52,389.

These findings and the resulting questioned and disallowed costs have resulted in the following paybacks and adjustments to the CDBG program:

FY 1982 Entitlement Grant (City FY 1983)	\$23,285,000
Less - Disallowed Costs as per RIGA	
Audit	\$1,754,276
Paid by the City (5/23/83)	<u>529,466</u>
Balance due HUD	1,224,810
Less - Questioned Costs	<u>3,979,224</u>
Amount Available to the City upon Grant Award	<u><u>\$18,080,966</u></u>

The reduction for questioned costs is a restriction on the funds pending resolution of audit issues. As the audit findings are resolved monies will be restored in appropriate amounts.

Although the audit was issued over one year ago, and the City formally responded in February 1983, HUD has taken no formal action, beyond monitoring the City's progress. The new Administration should take this opportunity to establish an active dialogue with the HUD Regional Administrator's Office to determine what the outcome of this audit will be.

In addition, an ongoing investigation of the Mayor's Office of Housing is being conducted by HUD's criminal division and the U.S. Attorney's Office. The investigation centers on a housing program administered by the Mayor's Office of Housing in which the City reimburses homeowners for qualified improvement to their home. At that time, the regulations did not prevent the same agency worker from estimating the value of work to be done and determining whether the work is completed from being one and the same. However, the investigation alleges there has been collusion between certain of these workers in order to misappropriate funds. It was difficult to get information on this investigation and, as a result, its present status is unknown. The Administration should request a briefing on the status of this investigation to determine the extent of its possible liability, if any.

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT (CETA)

The CETA program was established in 1973, to provide specific employment and training services required to prepare and place eligible individuals into unsubsidized employment. The program was administered by the NDEA and before that by the EEPA. The funds are supplied through the federal Department of Labor.

The CETA program has many outstanding audit issues dating from 1974, with a potential exposure to the City in questioned costs of \$6 million. According to the NDEA the audits are:

1. 1974-1976: the Public Service Employment audit resulted in a final determination of \$1,595,458 in disallowed costs. Subsequent negotiations reduced this to \$1,504,176. These costs represent the wages paid 8 participants who were ineligible because they were not Boston residents, 15 participants who were ineligible because of nepotism, and 56 participants who were ineligible because of their length of prior employment. The City requested a hearing before an Administrative Law Judge, which was held on March 10, 1983. Both parties have submitted post-hearing briefs and are awaiting a decision. Settlement negotiations, now ongoing, should continue.
2. 1977-1978: An audit of the City as Prime Sponsor and its subgrantees is in the final stages and will be issued shortly by the DOL-OIG. The draft report questioned costs of \$5.2 million, \$800,000 of which relates to a prior audit. Of the remaining \$4.4 million, slightly more than \$2 million is attributable to the subgrantees.
3. 1979-1980 and 1981: An audit of subgrantees for this period was completed by an independent public accountant on December 28, 1983. Questioned costs were \$62,000.
4. 1980-1983: An audit of the Prime Sponsor and its subgrantees commenced in December 1983. The audit should be monitored so that questioned costs can be adequately documented before the final report is issued.

The CETA program has been phased out; however the City's liability for past practices will require close monitoring to avoid the possibility of a large payback.

RECOMMENDATIONS -- FEDERAL GRANT AUDITS

The City has made progress over the past few years in consolidating the grant audit process. However, much remains to be accomplished.

1. Formal Procedures for Audit Coordination - formal procedures must be developed between the federal agencies and the grantee agencies to notify the City Auditor's office when it begins to audit grants. They should require that the Auditor be present at all entrance and exit conferences and that his approval be required before grantee agencies sign off on audit issues.
2. Audit Tracking and Monitoring Procedure - The Auditor's Office must establish formal tracking and monitoring procedures covering all City grant audits. Such procedures would allow the City to determine the status of any federal audit at any given time.
3. Selection of Independent Public Accountants - Currently independent public accountants (IPA's) are selected by either the Auditor's or the grantee agency depending on the grant. All IPA's should be selected by the Auditor's Office as it has expertise in the procedure. This would allow better control and monitoring of audits.
4. Implementaton of Audit Recommendations - There is no system for monitoring the implementation of federal grant audit recommendations. Most of the audits reviewed touched on many of the same issues. This area reflects overall weakness in controls over inter-governmental resources.
5. Monitor and Control of Federal Grants - Currently there is no central coordination of grant information. The Auditor's Office does not even know

which agencies apply for grants and when. In order to avoid the disallowance of costs, the Auditor's Office should be notified whenever a grant is awarded and should establish controls over grant expenditures to ensure that they comply, with federal requirements. The Auditors Office should also periodically review each grant to ensure compliance with these controls.

INTERNAL AUDIT

Given the millions of dollars spent each year in the City of Boston and the importance of controls and the control function over those dollars, Boston should create an agency which would perform a professional internal audit function. The internal audit function should report directly to the Mayor in order to maintain objectivity and independence.

Internal Audit Department responsibilities would include reviewing, on an ongoing basis, the internal control systems of the City to determine their adequacy and compliance. The Department would provide additional management control by monitoring other management controls.

Broad objectives for an Internal Audit Department would include responsibility to:

- o Determine adequacy and compliance with management's policies, plans and procedures and recommendations as to improvements.
- o Review the integrity of Management Information Systems.
- o Oversee the use of resources in an economic and efficient manner.

- o Determine the adequacy of operating objectives and goals as well as the effectiveness of results.
- o Post-audit and oversight regarding large transactions and projects
- o Determine compliance with applicable federal, state and city statutes, rules and regulations.

In establishing the internal audit staff, it would be wise for the City to adopt some of the standards of the federal government's General Accounting Office. The GAO recommends that persons with a variety of skills, rather than just accountants be hired and that the qualifications of the staff assigned to an audit should reflect the scope and complexities of the audit assignment.

Due to variations in program objectives as well as laws, regulations and rules applicable to different programs, the qualifications need to apply to the Internal Audit Department as a whole and not necessarily to the individual auditors. Therefore, the skills should range from accounting and auditing to engineering to computer sciences to program administration to legal. The skill level will be determined by the amount of resources that the administration wishes to expend on this department.

RECOMMENDATIONS -- INTERNAL AUDIT DEPARTMENT

1. Establishment of an Internal Audit Department. The administration should establish an Internal Audit Department which reports to the Mayor. This department should be staffed initially with between 5 and 10 professionals with a variety of skills and experience.

2. Establishment of Objectives. The administration must establish a policy and outline the objectives of the Internal Audit Department as well as its duties, powers and responsibilities.
3. Establishment of Monitoring Procedures. Additionally, administrative procedures should be established to monitor the implementation of Internal Audit Department recommendations. Such procedures must have "teeth" to ensure prompt and full compliance.

